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## What's Been Happening

### 1 — G7 Summit Concludes with U.S.-UK Deal, Other Talks Crawl On — 1

#### [In One Sentence]

- On June 16, Canadian Prime Minister Mark Carney and U.S. President Donald Trump agreed during the G7 summit in Alberta to pursue a new economic and security deal within 30 days, despite ongoing tensions over U.S. tariffs that Carney has vowed to challenge.
- At the G7 summit, President Trump and U.K. Prime Minister Keir Starmer signed the implementation terms of their economic prosperity deal, which lowers U.S. tariffs on British autos and aerospace imports while deferring final decisions on steel and pharmaceuticals, and aims to strengthen bilateral ties amid ongoing global tariff tensions.
- G7 leaders announced a new critical minerals action plan to secure supply chains by promoting investment, responsible mining, and international cooperation, and thereby counter non-market distortions and strengthen economic and national security.
- President Trump observed that the EU and Japan had yet to offer fair terms for their respective trade deals and warned of impending tariffs on pharmaceuticals too, while his economic team remained in Canada to continue negotiations after his early departure from the meeting.

#### [Mark the Essentials]

- In his meeting with German Chancellor Merz, President Trump demanded the European Union buy more U.S. oil and gas as part of the ongoing effort to rebalance trade relations.
- Canada's Mark Carney noted that his country has not agreed to a swift trade deal with the U.S. because it opposes President Trump's tariff-first approach, arguing that such tariffs harm both economies and violate existing agreements like USMCA. Ottawa is pushing for a full removal of tariffs while working to align with the U.S. on shared economic security goals.
- The U.S. has rejected the European Union's legal argument put forth at the WTO supporting its \$85 billion in retaliatory measures, arguing that the Trump administration's tariffs are not safeguard measures under WTO rules and thus cannot legally trigger retaliation under the Agreement on Safeguards. Washington also claims the EU has failed to meet consultation requirements, while the EU insists it acted in full compliance after the U.S. refused to engage.

- Japan's top trade negotiator Ryosei Akazawa said talks with the U.S. "remain in a fog," emphasizing that while the July 9 'reciprocal tariff' pause deadline is significant, it is not a firm deadline for reaching a deal. Tokyo continues to seek removal of U.S. tariffs on Japanese cars but is wary of making politically sensitive concessions ahead of its July 20 Upper House elections.
- The European Union remains engaged in trade negotiations with the U.S. and has expressed a preference for a mutually beneficial agreement, but is reluctant to accept a deal that includes unilateral concessions or preserves Trump's 10% baseline tariff. While progress has been made on nontariff issues, EU officials are still pushing for a broader agreement that addresses tariffs, ahead of the looming July 9 deadline.

### [Keeping an Eye On...]

- So, did the world learn anything further on President Trump's priorities regarding his reciprocal and sectoral tariffs, now that he has had the chance to meet (briefly) with key counterparts and trade partners at the G7 summit in Canada. Well, not much additionally. The unhelpful news on the tariffs front, and in the on-going negotiations, only reinforced what is – or should be – already known about Trump's priorities.

First, **the president's enthusiasm for striking deals is tempered by his lack of enthusiasm for compromise.** For Mr. Trump, quick 'wins' to calm financial markets and ensure certainty of investment prospects for business is good. Trade deficit reduction and the reshoring of industrially salient industries is even better. When push comes to shove, the latter will not be substantially traded off for the former. The extent to which Donald Trump is personally invested in deficit reduction and local production should not be underestimated; it has been an animating fixation through his adult life. And his second presidency presents a last opportunity to leave an enduring mark in this regard. The reciprocal and sectoral tariffs are not a mere tactical caper to win a modicum of additional market access for U.S. goods abroad. The Japanese, in particular, appear to have misjudged his enthusiasm for a deal, hoping that negotiating in good faith and dangling deepened cooperation on economic security measures in areas of rare earths, shipbuilding and semiconductors as a bargaining chip would suffice to bring a deal home (and an escape from Trump's tariffs) by his self-appointed July 9<sup>th</sup> deadline.

Second, **the auto and steel sectors loom large in Trump's consciousness.** They are symbols of U.S. manufacturing that must be reshored to the maximum extent practicable. This cannot be good news to the Germans, Japanese or the South Koreans. In 2024, German auto exports to the U.S. totaled approx. \$27 billion or 0.6% of German GDP, and it was also the sixth largest source of U.S. steel imports. Japanese auto exports to the U.S., meanwhile, totaled approximately \$40 billion in 2024, and along with auto parts account for 34% of Japan's total exports to the U.S. And South Korea topped the list of car exporters in 2024 with 1.5 million units exported. The German (and EU), Japanese and South Korean negotiations with the administration will not be resolved as easily as was the case with the United Kingdom (*see next point*), given that the UK is a modest auto exporter as well as the rare case of an advanced economy that runs an overall goods trade deficit with the U.S. With 75% of the U.S. goods trade deficit in 2024 composed of motor vehicle and auto parts, pharmaceutical products, machinery, and electrical equipment, expect Ireland's \$50 billion pharmaceutical goods exports – a classic case of offshoring and profits shifting by affiliates of U.S.

multinationals - to come due for reshoring. Section 232-based national security tariffs on pharma are expected to be announced soon.

Third, **a hard line has been drawn in particular on autos.** Auto tariffs will not be coming down to their original 2.5%, come what may. While the 25% Section 232 auto tariff is negotiable, a baseline 10% tariff rate - *and that too for in-quota imports only* - is to remain, regardless. At least, this is what the United Kingdom will face. Out-of-quota tariff will stay at 27.5% (2.5% MFN auto tariff rate + 25% Section 232 auto tariff rate). The design of the tariff-rate quota for South Korean, German and Japanese vehicles is anybody's guess but will likely be an uncompromising one, given that South Koreans, Japanese and Germans export 15 times (1.5 million), 14 times (1.4 million) and 6 times (600,000) the number of cars to the U.S., respectively, compared to the UK. Tokyo's argument that the additional reciprocal tariff surcharge of 14% on Japan should be reduced or eliminated to reflect expanded FDI commitments in the U.S. auto sector has made limited headway. **By contrast, the steel tariffs may be negotiable.** A new trading union for steel and aluminum with zero tariffs is to come into effect with the UK, premised on the security of supply chains and "ownership of relevant production facilities". The UK may be a poor reference point though; it does not feature among the top 10 steel exporters to the U.S. With Trump determined to achieve a sustained capacity utilization rate of 80% by the domestic industry, the U.S.' top five import partners (Canada, EU, Mexico, S. Korea, and Brazil provide 75% of the imports) will likely have to swallow hefty tariffs. Similarly hefty tariffs are to be assessed on steel derivative items too, such as refrigerators-freezers, washing machines, dishwashers, etc., based on their value of steel content. These derivative tariffs will hit China particularly hard.

Fourth, **non-tariff and behind-the-border barriers, such as digital services taxes, food safety standards, conformity assessments, etc. are not a priority for the time being.** Goods trade and tariffs, Trump's abiding fixation, is the overwhelming priority. These NTBs were kicked into the long grass in the UK agreement and a similar placeholder deal with the European Union is in the making. Make no mistake: the Trump administration has no love lost for the EU's supposedly "extorti[ve] and unfair [digital sector] fines and penalties" or the OECD's supposedly unfair extraterritorial tax harmonization rules. Modernizing the global taxation system for the 21<sup>st</sup> century holds no interest to Mr. Trump. To the contrary, the administration is arming itself with a ferocious 'revenge tax' provision in the 'Big Beautiful Bill', currently doing the rounds on the Hill, to strike back when these fines and penalties come due (although latest reporting suggests this provision is being dropped from the BBB; besides Section 891 of the tax code, though unused since 1934, already provides for somewhat comparable penalties). But this is a weapon to be wielded another day; it is all about deficits and tariffs today. Besides, the U.S.' objection to foreign digital services taxes has been strongly communicated to counterparts, per Secretary Bessent.

Finally, **China was not present at the G7 Summit in Canada but was very much on the table of discussion.** Both Japan and the EU have offered cooperation in the semiconductor and critical minerals sectors which, to be fair, would be a continuation of cooperative undertakings initiated during the Biden administration. Additionally, the Europeans have offered cooperation in aviation and the Japanese in shipbuilding. The terms of the UK deal moreover require London to align its supply chain security standards with on-going and future U.S. Section 232 investigations. Given the ever-lengthening list of such

investigations (active ones include copper, timber and lumber, semiconductors, pharmaceuticals, trucks, processed critical minerals, and commercial aircraft and jet engines), the UK's - and third country - trade ties with China cannot but be impacted, going forward. It begs the question, too, as to why allies and partners should have to burn their (trade policy) bridges with China or follow the U.S. down its path of casual disregard of multilateral trade and treaty law, especially if the Trump administration chooses to later pursue its own sweetheart market purchases deal with Beijing? Be that as it may, the various negotiations so far have been illuminating in that they shed light on President Trump's priorities and tactics. But with just a little over two weeks to go before his Liberation Day tariff pause expires, there is dismally little to show by way of results.

### [Expanded Reading]

- [U.S., EU Near Deal on Nontariff Trade Irritants](#), *The Wall Street Journal*, June 20, 2025
- [Japan's trade negotiator says US tariff talks are 'in a fog'](#), Reuters, June 19, 2025
- [G7 Leaders In Alberta Release Critical Minerals Action Plan](#), *Canadian Mining Journal*, June 17, 2025
- [Trump Says EU Not Offering Fair Trade Deal, Japan being 'Tough' Too](#), Reuters, June 17, 2025
- [Carney Says He and Trump are Aiming for a Canada-US Deal inside 30 Days](#), Reuters, June 16, 2025
- [US and UK Announce a Trade Deal, But Steel Imports are Still Being Negotiated](#), *Associated Press*, June 16, 2025
- [Trade Deal between Canada and the U.S. Could Come within 30 Days, Ottawa Says](#), *Yahoo Finance*, June 16, 2025
- [U.S.: EU-Proposed Retaliation at WTO Invalid as Tariffs aren't Safeguards](#), *Inside US Trade*, June 11, 2025
- [President Trump Participates in a Bilateral Meeting with the Chancellor of Germany](#), *The White House*, June 5, 2025

## 2 — U.S. Export Controls on China in the Mix at and after London Talks — 2

### [In One Sentence]

- Jeffrey Kessler, the Bureau of Industry and Security's head at the Commerce Department proposed revoking critical technology waivers related to semiconductor manufacturing equipment for allied semiconductor plants operating in China.
- With the Trump administration easing its position on certain chip-related controls as part of the London talks, concerns have arisen that export controls - hitherto non-negotiable - are being used as a negotiating tool in trade talks.
- In what appears to be a direct tit-for-tat response to threatened new US export controls on critical chip design software, Chinese regulators have seemingly retaliated by delaying the approval of Synopsys's \$35 billion acquisition of Ansys.
- China's AI market leader DeepSeek is aiding China's military and intelligence operations, as per a senior State Department official.

### [Mark the Essentials]

- Kessler and the White House publicly deny the action was a negotiating tactic, instead justifying it as a national security measure intended to create reciprocity with China's own export control system.
- Per the senior official, Deepseek allegedly evaded U.S. export controls by using a network of Southeast Asian shell companies to acquire restricted, high-end American chips.
- White House czar David Sacks has argued that America's current chip control strategy is self-defeating, as its indiscriminate nature risks alienating allies and ceding the global market to a rapidly advancing Huawei.

- Citing national security, the Commerce Department has expanded its steel derivative items tariffs to include a variety of common household appliances, with new duties based on the products' steel content. Chinese exporters of steel derivative items will feel the greatest impact.

### [Keeping an Eye On...]

- For as long as one can remember, trade policy and export control policy never did mix. They were pursued on separate tracks; sometimes, even on parallel tracks. But aside from a stray case here-and-there, the latter was never traded off as a chit in trade policy negotiations. To be clear, the gap or lack of linkage between the two was never as clear-cut as made out to be by proponents of export controls. The onset of the technology war with China and the heavy-handed export controls on Huawei during the first Trump administration can in fact be dated exactly to the demise of their trade policy talks in May 2019. Nonetheless, it is true that export controls stood on their own merits and were essentially non-negotiable. Well, not any longer. At the U.S.-China London talks in early June, U.S. export controls were actively deployed as an instrument of coercion within the broader framework of trade policy talks. And once the threat of these controls had their intended effect (to get China to hasten its approval of critical mineral flows), they were withdrawn or are in the process of being withdrawn.

The export controls-trade negotiations linkage is, of course, a noteworthy development. More noteworthy though is what this development says about China's technology pain points in the context of U.S.-held technologies, at least in the Trump administration's estimation. Three pain points stand out in particular. First, are **chip software-related electronic design automation (EDA) tools**. U.S. EDA players account for 80% of China's EDA market – this, despite useful progress by China's leading EDA tool company, Empyrean Technologies as well as by Huawei which was compelled to develop EDA tools once its chip design arm HiSilicon was added to the Entity List during the final year of Trump 1.0. EDA tools localization has been achieved but only at relatively more mature nodes (14nm and above). Second, is the case of **semiconductor manufacturing equipment**. In December 2024, on its way out, the Biden administration significantly expanded the Foreign Direct Product Rule's application to semiconductor manufacturing equipment, which essentially dictates that all equipment needed in areas of advanced lithography, deposition, etch, and metrology, regardless of origin and even if foreign produced, was to be denied to China. The Trump administration is now looking to expand these controls to equipment for fabricating *mature node* chips too at facilities in China that are operated by South Korean firms (Samsung, SK Hynix). Their blanket verified end user (VEU) access to U.S. chipmaking equipment is to be replaced with case-by-case licensing. Given the generational gap between the West and China in the semiconductor manufacturing equipment space, these controls will bind. And third, is the case of the **LEAP-1C jet engine** that powers China's state-owned aviation national champion COMAC's C919 single-aisle airliner. The LEAP-1C engine, joint venture-produced by the U.S.' GE Aerospace and France's Safran Aircraft Engines, is the only Western engine cleared for sale to China. Halting the export of these engines could greatly retard the production and deliveries of the C919, which recently marked two years of commercial service in China's aviation sector. Turbojet engines are at or near the top of China's list of most dependent technologies and have been carved out from its list of retaliatory tariffs on U.S. goods.

Summing up, then, what are the key takeaways? Two come to mind. First, in London earlier this month, the two sides did not so much have a cordial conversation on agreeing to disagree regarding managing their export controls-related differences as much as they spent their time exchanging threats on the topic to rein-in their counterparts' behavior. And second, **if the U.S.-China trade negotiations head south over the next couple of months and China's critical minerals blockages are reinstated, expect some of these technologies to show up as the next additions in the U.S.' strategic trade controls list.** Beijing may have its rare earths and critical minerals, but Washington comes armed to this fight with superior weaponry.

### [Expanded Reading]

- [China Is Still Choking Exports of Rare Earths Despite Pact With U.S.](#), The Wall Street Journal, June 26, 2025
- [As Export Controls Fuel Domestic Innovation, China's AI Industry Closes Gap With U.S.](#), China Digital Times, June 24, 2025
- [DeepSeek Aids China's Military And Evaded Export Controls, US Official Says: Reuters](#), CNBC, June 23, 2025
- [U.S. Prepares Action Targeting Allies' Chip Plants in China](#), The Wall Street Journal, June 20, 2025
- [China Delays Synopsys-Ansys Deal Amid Heightened US Tech Export Curbs](#), Digi Times Asia, June 17, 2025
- [US And China Agree On Plan To Ease Export Controls After Trade Talks In London](#), CNN, June 11, 2025
- [Trump's AI czar downplays risk AI chip exports could be smuggled](#), Reuters, June 10, 2025
- [Trump eyes easing US chip export restrictions to secure Chinese rare earths](#), Financial Times, June 9, 2025

## On the Hill



### [Legislative Developments]

- Senate Finance Republicans released budget bill language that broadly defines “unfair foreign taxes” as discriminatory or extraterritorial, aiming to impose escalating U.S. taxes on entities in countries with such measures beginning in 2027.
- Rep. Carol Miller (R-WV) reintroduced the “U.S.-Republic of Korea Digital Trade Enforcement Act”, urging USTR to investigate South Korea's proposed tech regulations for potential harm to U.S. companies as trade violations, as lawmakers and industry groups warn the Korean bill could burden American platforms and set harmful global precedents.
- Senate Finance Committee Ranking Member Ron Wyden (D-OR) criticized the Republican tax bill as a major threat to domestic solar manufacturing and contradictory to the Trump administration's stated onshoring goals, warning it would roll back *Inflation Reduction Act* clean energy incentives, shift production to China, and endanger U.S. jobs.
- Rep. Tom McClintock (R-CA) and Sen. Mike Lee (R-UT) introduced the Open America's Waters Act” to repeal the Jones Act, arguing the latter inflates domestic trade costs and undermines U.S. national security by forcing reliance on foreign imports, especially for energy.

### [Hearings and Statements]

- Sen. Maggie Hassan (D-NH) challenged Treasury Secretary Scott Bessent's denial that tariffs are taxes, citing a report showing a 24% price increase on baby items.

- Treasury Secretary Bessent defended a controversial tax provision to retaliate against foreign digital taxes, despite warnings of potential harm to U.S. investment - although more recent signs are that he may be willing to have the provision dropped in the final bill.
- In dueling legal briefs, the Trump administration has claimed its emergency tariffs are vital for trade negotiations, while Democratic senators argue the duties actually harm U.S. diplomacy and national security by alienating key allies.
- Sens. Wyden (D-OR) and Warren (D-MA) charged that the administration's tariff policies and cuts to Social Security access are jeopardizing seniors' financial security.

### [Expanded Reading]

- [Bessent asks lawmakers to rid US budget bill of Trump's retaliatory tax plan after G7 deal](#), *Reuters*, June 26, 2025
- [Senate Republicans' Changes to 'Big Beautiful Bill' Tee up Clash with House](#), *NPR*, June 17, 2025
- [Miller, Gonzales, Yakym, and Miller Reintroduce the United States-Republic of Korea Digital Trade Enforcement Act](#), *Carol Miller*, June 17, 2025
- [Bessent: Tariffs Are Not Taxes](#), *Washington Tariff and Trade Letter*, June 12, 2025
- [McClintock, Lee Introduce the Open America's Waters Act to Repeal Jones Act, Boost Coastal Trade](#), *Tom McClintock*, June 12, 2025
- [New: Parents Are Paying 24% More for Five Common Baby Items Since Trump's Tariffs](#), *Joint Economic Committee*, June 12, 2025
- [Scott Bessent Defends 'Revenge Tax' Proposal](#), *The Wall Street Journal*, June 11, 2025
- [Democrats Scrambling to Convince GOP to Save Green Credits](#), *E&E News by Politico*, June 10, 2025
- [Senators Shaheen, Wyden, Schumer Lead Amicus Brief Challenging Trump Administration Abuse of Emergency Powers to Impose Tariffs](#), *Foreign Relations Committee*, June 10, 2025