

Frequently Asked Questions and Answers Regarding the Trump Administration's Push to Secure Supply Chains in the United States

New Interagency Effort Aimed at Expanding Sectors, Measures

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International Trade, Public Policy, Supply Chain

It has been publicly reported that discussions are underway within the Trump Administration for a coordinated interagency initiative to remove key industrial supply chain dependencies from overseas, especially China, and redouble efforts to secure such supply chains in the United States. While this initiative proceeds alongside ongoing efforts to secure supply chains in sectors such as semiconductor manufacturing, rare earth minerals processing, and more recently, medical supply manufacturing, the new initiative is expected to extend beyond such sectors in an effort to reduce import dependencies in a range of industries, such as advanced manufacturing. Further, the Administration's effort is expected to involve expanded government action, including both affirmative and punitive measures, to encourage the reshoring of production. This report addresses what is currently known, and, importantly, what is still uncertain, regarding the new initiative.

1. What is the current status of this initiative?

The initiative is under active discussion within the U.S. government. Recent public reporting, as well as recently announced administrative actions, have signaled this broader initiative. For example, Keith Krach, the U.S. Department of State Undersecretary for Economic Growth, Energy, and the Environment, recently [stated](#) that the Administration is "turbo-charging" its efforts to reduce reliance on supply chains in China. Robert Lighthizer, the U.S. Trade Representative, also recently published an [op-ed](#) criticizing the "overreliance" on other countries for critical products as a strategic vulnerability.

Our understanding is that the U.S. Departments of Commerce, State, Treasury, and Defense, as well as the Office of the U.S. Trade Representative, are involved in interagency discussions. Further, the Administration's initiative appears to be bolstered by the broad support of lawmakers, who are [discussing](#) legislative measures to secure medical and other supply chains in the United States.

2. What has the Administration done so far and what is different with this initiative?

The Administration has been engaged in ongoing efforts to reduce supply chain dependencies regarding key defense and strategic products, such as advanced semiconductor manufacturing and rare earth minerals processing. On semiconductors, the Administration recently negotiated the construction of a new Taiwan Semiconductor Manufacturing Co. semiconductor production plant in Arizona after expressing growing concern about the United States' reliance on Taiwan for advanced semiconductors, and is reportedly in similar negotiations with Intel for a domestic plant. On rare earth minerals processing, the Department of Defense is contemplating funding for rare earth processors to build separation facilities in the United States with the explicit goal of reducing the United States' dependence on China, and has [increasingly](#) made rare earth minerals projects a focus of the National Defense Authorization Act (NDAA).

Finally, in light of critical supply shortages during the COVID-19 pandemic, the Administration has recently focused on the medical supply chain, with Administration officials reportedly discussing a [proposed](#) executive order to streamline regulatory approvals for U.S.-made products and encourage the U.S. government to only buy U.S.-made medical products.

While reducing supply chain dependencies in sectors such as semiconductors and rare earth minerals has been a focus of the Administration for some years, the new interagency initiative reportedly will look beyond these traditional sectors—all industrial sectors where there may be a supply chain dependency are now in play.

3. What are the new sectors under focus?

This remains under discussion. It is our understanding that U.S. government agencies are still deliberating as to which new industrial sectors should be the target of new measures based on the United States' import dependencies, especially in relation to China. However, we expect information communications technology (ICT) products to be a focus, as well as other areas of advanced manufacturing in which China is pursuing a dominant market share globally, such as electric vehicle technology. We also expect sectors related to critical infrastructure to be an additional area of focus, as evidenced by the recent executive order on "Securing the United States Bulk-Power System," which, as we explain in this [alert](#), declares a national emergency with respect to "the unrestricted foreign supply of bulk-power system electric equipment" and delegates to the Department of Energy the authority to prohibit or require mitigation measures in connection with purchases of certain equipment.

4. What are the new or expanded measures that may be utilized?

We expect the Administration to utilize both affirmative and punitive measures to encourage the reshoring of production. Possible affirmative measures under [discussion](#) include tax incentives for companies that shift operations back to the United States, or even government-backed loans or direct assistance, including a possible \$25 billion fund to encourage U.S. companies to exit China. Administration officials have also discussed the possibility of reimbursing the moving costs for U.S. companies in Hong Kong or mainland China seeking to move back to the United States. Further, the Administration is reportedly contemplating deregulation to facilitate companies in certain sectors to operate in the United States.

Punitive measures may include increased use of the Administration's investigative, trade remedies, and sanctions powers. The Commerce Department recently announced two new investigations under Section 232—[one](#) which examines whether certain transformer-related

items are being imported into the United States in a way to threaten national security, and another which investigates whether the present imports of vanadium, a mineral with national defense and critical infrastructure applications, pose a national security risk. Such Section 232 investigations may become more commonplace as part of the initiative. Further, we expect the Administration to continue to utilize executive orders to exert pressure in particularly sensitive sectors, as exemplified by the issuance of the executive orders on [“Securing the Information and Communications Technology and Services Supply Chain”](#) and [“Securing the United States Bulk-Power System.”](#)

Finally, we also expect increased utilization of NDAA provisions to shore up U.S. production of key strategic goods through a combination of affirmative and punitive measures. On the one hand, the NDAA may be used to allocate funds to support domestic manufacturing of items critical to the defense supply chain. On the other hand, the NDAA may also be used to impose further broad restrictions on the procurement of products or services from non-domestic sources, such as the Fiscal Year 2019 Section 889 provisions which will become effective on August 13, 2020, prohibiting the U.S. government from contracting with any entity that uses Huawei and other specified Chinese ICT.

The interagency initiative remains a fluid development, and the exact focus and implementation of the initiative are still to be crystallized. We understand that the Administration is also in discussions with industry leaders to gauge their reactions on the interagency initiative and to encourage attention to reducing supply chain dependencies. We will continue to monitor and report on these developments.

5. What is motivating this supply chain push and will it sustain past the 2020 election?

There are at least four primary motivations for the focus on supply chain. First, there has been a growing concern in the U.S. national security community in both the executive branch and Congress on the U.S. dependency on supply from Asia, and in particular China, on items that are critical to economic and national security. As noted above, the semiconductor and rare earth sectors are central to this particular concern. Intensifying concerns around economic competition with China, especially in high-technology and advanced manufacturing, is now broadening this focus to other sectors.

Second, as the executive orders focused on supply chain security in ICT products and services and bulk power systems reflect, the U.S. government has specific concerns about the vulnerabilities in critical infrastructure systems. Our understanding is that these concerns are based on continued evidence of threat actors seeking to exploit such systems.

Third, our judgment is that these developments also reflect a negative reaction to the word “foreign.” The politics around globalization has fueled a politics of protectionism—not only in the United States but more broadly—and while that is certainly not the sole driver, we should also recognize that the sprouting of these preferences for domestic supply is occurring within political environments in which there is pressure to look inward or a belief that doing so will be politically expedient.

Fourth, the COVID-19 pandemic has been an accelerant—not only in the area of medical supplies where the pandemic focused new attention on the ability of the United States to produce and mobilize critical resources from protective gear to medical equipment to drugs—but

more broadly because it gave momentum to the insular views and tendencies reflected in the third point above.

Collectively, these factors are manifesting in various ways—formal executive actions and potential legislative actions, as outlined above, but also through domestic preferences that are arising in individual procurements. That is, bureaucracies are naturally responding to these trends on a daily basis in ways that are not necessarily politically directed or driven but that nonetheless reflect the overall concerns about dependencies on foreign supply.

We believe the first two factors identified above—which are grounded in the concerns of the U.S. national security community and the view that China is a long-term economic and technological competitor that started becoming more animated towards the end of the Obama Administration—are, to a degree, apolitical or at least are so deeply bipartisan that they will sustain regardless of who wins the 2020 election. That, in turn, means that there will continue to be a focus on supply chain security and shoring up domestic supply in critical areas even if the anticipated nominee from the Democratic Party, Joe Biden, wins the election. However, preferences around particular policy approaches and the degree to which the United States continues to turn more insular—and how these manifest in supply chain rules—may be impacted by the 2020 election, as well as by how long the pandemic persists and constrains global travel and supply.

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If you have any questions concerning the material discussed in this client alert, please contact the following members of our International Trade and Public Policy practices:

<u>Christopher Adams</u>	+1 202 662 5288	cadams@cov.com
<u>Trisha Anderson</u>	+1 202 662 5048	tanderson@cov.com
<u>Susan Cassidy</u>	+1 202 662 5348	scassidy@cov.com
<u>David Fagan</u>	+1 202 662 5291	dfagan@cov.com
<u>Peter Lichtenbaum</u>	+1 202 662 5557	plichtenbaum@cov.com
<u>Tim Stratford</u>	+86 10 5910 0508	tstratford@cov.com
<u>John Veroneau</u>	+1 202 662 5034	jveroneau@cov.com
<u>Jonathan Wakely</u>	+1 202 662 5387	jwakely@cov.com
<u>Claire Kim</u>	+1 202 662 5071	ckim@cov.com

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