



Trade Update

October 22, 2019

Provided by the [Corn Refiners Association](#)

Highlights

- **USMCA:** Talks accelerate as the House Working Group and Amb. Lighthizer met three times last week in efforts to move more quickly towards a final text, even as the International Association of Machinists and Aerospace Workers (IAM) became the third labor group in recent weeks to announce opposition to the current text
- **China Tariffs:** The details of the Phase One U.S.- China trade deal remains unclear outside of the White House's pronouncement regarding China's "serious commitment" to buy \$40-50 billion in agricultural purchases
- **WTO:** The window of opportunity for resolving issues at the WTO before the expiring appointments of two of the three remaining Appellate Body panelists in December has closed, leaving great uncertainty among WTO members

USMCA

- Mexican officials were in D.C. last week to convince House Democrats that the Mexican government is committed labor reforms and to urge them to pass USMCA as soon as possible. Mexican Undersecretary for North America Jesús Seade and Mexican ambassador to the U.S. Martha Bárcena delivered a letter from President López Obrador that contained formal, written versions of the promises that he made during the House Democrats' trip to Mexico earlier in October. "Our government is committed to this labor policy, and I am absolutely certain we will carry it out as described" López Obrador stated in the letter. In the letter, President Obrador pledged close to \$1 billion to implement new labor law under USMCA. Mexico's Finance Ministry will ask lawmakers to boost the budget that was already presented to Congress by \$69 million for next year. Mexico has promised another \$830 million over the following three years to fund the labor overhaul. Rep. Neal, Chairman of the House working group, described the letter as "a significant step in the right direction" but clarified that work on the issue is incomplete.



(Pictured: President Lopez Obrador)

- Amb. Lighthizer and the House Democrat working group met three times last week in efforts to close

gaps on USMCA, principally surrounding labor and enforcement provisions. Chairman Neal reported that the sides were "firming it up" but acknowledged that more progress was needed on labor. Neal also acknowledged that the letter from President Lopez Obrador specifying Mexico's commitment to implementation and funding of labor reforms under USMCA that was delivered last week was a critical development. Neal stated, "You saw the letter from the Mexican president. I thought that was a significant step in the right direction," "...I think that some of the members now are digesting the letter." Amb. Lighthizer and the House working group are expected to continue heightened discussions this week on multiple days.

- Positive feedback was reported from multiple meetings last week between Amb. Lighthizer and House Democrats working group. Rep. Thompson, co-chair of the labor task force, reported, "I'm pleased with how they are going -- I think they are going well." "I think we are continuing to make progress." "There are still some things to do." Rep. Kind, head of the working group, reported that talks are "accelerating and ideas are exchanging." USTR and the working group are reportedly aiming to reach an agreement by the end of October of modification to the USMCA.



(Pictured: Rep. Mike Thompson)

- Early last week House Speaker Pelosi reiterated she still does not have enough assurances from the Trump administration that it will be able to enforce the labor and environmental provisions that Mexico agreed to under USMCA. "All through the break and continuing this week, we've been working on the (USMCA) and we hope to be on a path to yes," she said. "We're still waiting for assurances about enforceability ... because you can have all the good provisions in the world, but if you can't enforce them, you're just having a conversation."
- Jesús Seade also stated while visiting D.C. last week that any changes made to USMCA by the House Democrats must be approved by the Mexican government, indicating that talks between the U.S., Canada, and Mexico must resume once USTR and the House Working Group agree on a final version of the text.
- The International Association of Machinists and Aerospace Workers (IAM) recently joined AFL-CIO and UAW in opposition to USMCA in its current form. IAM sent a [letter to Congress](#) last week warning that if a vote on USMCA is rushed through Congress without the agreement being "greatly improved," the union will oppose it. The letter to lawmakers parallels recent statements by UAW and AFL-CIO calling for changes to USMCA and threatening opposition to a rushed vote. The collective labor union message suggests that more work may be required on labor and enforcement issues in the USMCA.

Section 232 Tariff Actions

- European leaders continue to push back on U.S. tariffs and have implored President Trump to turn to diplomatic measures to solve differences, rather than turning to a trade war. Phil Hogan, who will replace Cecilia Malmström as EU Trade Commissioner on November 1, encouraged the Trump administration to step back from the downward spiral of tit-for-tat trade actions and engage in concrete discussion. Hogan said, "It takes two to tango; I am ready to engage politically with the United States to resolve our trade differences."



(Pictured: Phil Hogan)

- Prospects declined considerably last week for legislative tools to reign in Presidential tariff authority under section 232 ahead of the looming 232 deadline on auto and auto parts. Sen. Portman announced that the Senate Finance Committee likely will not mark up a compromise bill to rein in presidential tariff powers before President Trump's deadline (Nov. 17th) for a decision on Section 232 restrictions on autos and auto parts.
- As reported earlier, Sen. Grassley was spearheading efforts to develop consensus legislation that draws on bills proposed by Portman and fellow panel member Sen. Toomey to restrict the Presidential authority to impose Section 232 tariffs. Last May, President Trump announced a 6-month delay in imposing 232 tariffs on auto and auto-parts imports, directing USTR leadership to hammer out arrangements with the European Union and Japan.

Section 301 Tariff Actions

- Last week China confirmed it shares the same understanding of "substantial phase one" trade arrangement as the U.S., but the details of the deal remain unsigned. Chinese Foreign Ministry spokesperson Geng Shuang said, "What the U.S. side said is true, and it is the same with our understanding on this agreement." According to U.S. reports, China agreed to pursue unspecified changes to its currency and intellectual-property rules and open access to financial-services markets. In return, the U.S. has postponed tariff increases, from 25% to 30%, on \$250 billion of Chinese originally scheduled for Oct. 15th, according to several sources.



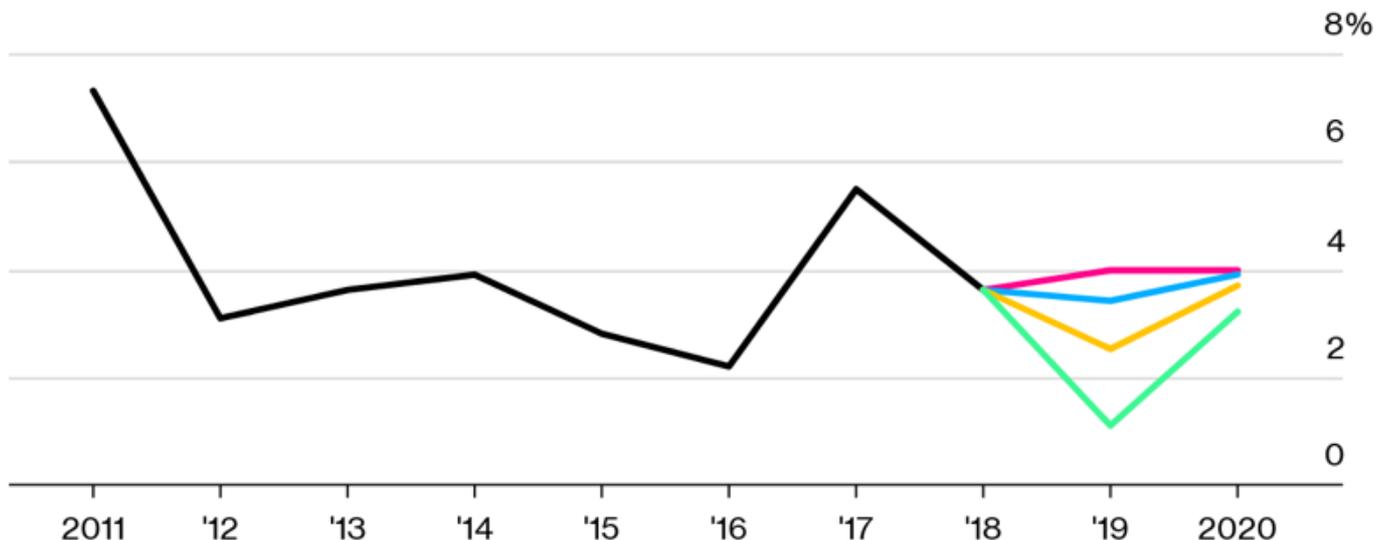
(Pictured: Chinese Foreign Ministry spokesperson, Geng Shuang)

- According to the White House, another key part of the phase one deal is China's commitment to buy \$40 billion to \$50 billion worth of U.S. agricultural products.
- Last week, Treasury Secretary Mnuchin confirmed that the phase one deal remains "subject to documentation" and that the U.S. could still follow through with plans to impose tariffs on imports from China in December.
- The U.S.-China trade dispute is the biggest drag on a slowing global economy, the International Monetary Fund said in new forecasts last Tuesday at its annual meetings in D.C. The IMF's economic projections reveal that the tariff battle will result in China losing 2% of economic output in the short run and shave 0.6% off U.S. GDP. According to the IMF, 0.6% GDP loss is the equivalent of losing Nebraska's economic contributions. St. Louis Federal Reserve President James Bullard noted a resolution to the trade dispute is unlikely in the short term. "We have opened Pandora's Box. Trade is very hard to resolve. They are very long and very involved — over a long period of time."
- The IMF lowered its 2019 global trade forecast for the fourth time, citing increasing tariff actions by the world's largest economies. It slashed the estimate for the growth in trade volume to a "near standstill" pace of just 1.1% from 3.6% last year. The 2020 forecast estimates rebound to 3.2%.

Trading Down

The IMF sees tariffs taking their toll on global trade growth

World trade volume Forecast in January April July October



Source: International Monetary Fund

Bloomberg

U.S. - Japan Trade Agreement

- The U.S.-Japan trade agreement is moving closer to going into effect after the approval by Prime Minister Abe's cabinet of a bill to ratify the agreement. The next step will be for the Japanese parliamentary body, the Diet, to approve the bill before the end of the extraordinary session it has called in order to move the trade agreement to ratification. The extraordinary session will conclude on December 9th.
- President Trump directly addressed the benefits of the trade agreement for the U.S. agricultural sector during the signing ceremony, noting that "In the United States, these deals are a game changer for our farmers and our ranchers...we've been working very hard on this – providing them with significantly enhanced access to a critical foreign market." Later, he added, "Under the terms of the agreement, today Japan has committed to dramatically increase market access to American food and agricultural exports...It's one of the largest trade deals ever signed. As a result, 126 million Japanese customers will have greater access to high-quality American almonds, blueberries, corn, wine, poultry, and egg products, beef, pork, wheat, and so much more."

U.S. - EU Trade

- During head of state visit by Italian President Sergio Mattarella, President Trump emphasized that the U.S. would win a tariff war with the EU. Trump's comments were made against the backdrop of 10% and 25% tariffs on \$7.5 billion in EU goods under the WTO Airbus decision. Trump stated, "Well actually the tariff situation is interesting because we just -- it's like I said with China, it turned out to be true -- we cannot lose a war of tariffs because the imbalance is so great between the United States and in this case the European Union." "But in a war of tariffs with the European Union, the trade imbalance is so great that we can't lose that because they do much more business than we do and that's unfortunate."
- President Mattarella speaking to reporters after a meeting with Trump emphasized a path of negotiations, rather than tariff volleys in the Airbus and Boeing disputes. Mattarella explained, "Currently, following the WTO's decision regarding Airbus, there may be tariffs, and there may be tariffs in six months' time concerning the subsidies given to Boeing. This is a mere race between

tariffs, mutual tariffs. I think it would be best to meet and to deal with our mutual needs so that a solution can be found. But if we don't do this now, it will have to be done soon. And I believe it would be best to find a solution immediately instead of imposing tariffs which would then lead to other tariffs and that would be a damage to both of our economies."

- On October 18th, the announced 10% or 25% tariffs of \$7.5 billion of EU goods, resulting from the WTO's ruling of illegal launch aid to Airbus, went into effect. According to the final list released by the White House, products subject to additional 25% duties include a wide range of agriculture and manufactured goods, notably cheeses, yogurt, butter, fruits, whiskey, and certain textile and apparel items. The 10% duties comprise solely of non-military aircraft and parts.
- The EU's Trade Commissioner released a statement, saying, "We regret the choice of the U.S. to move ahead with tariffs. This step leaves us no alternative but to follow through in due course with our own tariffs in the Boeing case, where the U.S. has been found in breach of WTO rules."

U.S.-U.K Trade Agreement

- Prime Minister Boris Johnson and Jean-Claude Juncker, the President of the European Commission, announced last Thursday that they had reached a new agreement for the U.K.'s exit from the European Union ahead of the October 31st deadline. However, over the weekend U.K. lawmakers refused to vote on the Brexit deal and instead forced the prime minister to seek a three-month extension first. According to several reports, Johnson is now legally required under U.K. law to request from the EU for an extension until Jan. 31, 2020. However, Johnson disputes the legal requirement, insisting he will not negotiate a delay with the European Union, adding: "And neither does the law compel me to do so."



(Pictured: Prime Minister Boris Johnson and President of the European Commission, Jean-Claude Juncker)

- After Johnson and Juncker's initial announcement last week, several EU agriculture and food groups expressed support for the new agreement. Copa, Cogeca, CELCAA, and FoodDrinkEurope, whose members span the ag supply chain from farmers to beverage distributors, released a joint statement, "This deal paves the way for an orderly withdrawal, a principle that the EU agri-food chain has repeatedly requested, thereby providing predictability to operators." "A hard Brexit would have been detrimental for EU and UK farmers, food and drink manufacturers, traders in agri-food commodities as well as consumers."
- President Trump and Prime Minister Johnson previously expressed that they aim to have a U.S.-UK free trade agreement concluded quickly after the exit of Britain from the European Union. According to Bloomberg Economics, about 0.9% of global GDP is exposed to Brexit trade risk. For some context, EU-UK trade is about 3.1% of world trade, a relationship roughly equivalent to U.S. trade with China.

U.S. - India Trade Developments



(Pictured: Finance Minister Nirmala Sitharaman)

- Indian officials reported that the U.S. and India are narrowing differences and aiming for another round of high-level trade discussions. Indian Finance Minister Nirmala Sitharaman said "I think good progress has been made" with the U.S., adding, "I see [a good possibility of a good trade deal with the U.S. soon](#). Each country has its national priorities and putting your national priorities on the top ... guiding a trade talk is not a bad thing at all," she said. "But talks are happening. I'm sure things will get resolved."

General Trade Cooperation/WTO Reform



(Pictured: Amb. Walker)

- New Zealand Ambassador to the WTO David Walker, the WTO- appointed facilitator, proposed a General Council decision to resolve the AB crisis. Amb. Walker said in remarks introducing the draft decision at the General Council meeting on Tuesday. "It may seem tautological, but a solution to improve the functioning of the Appellate Body can only have effect if there is a functioning Appellate Body for it to apply to. So logically, the adoption of such a General Council Decision should be accompanied by an instruction from the General Council to the DSB to launch the selection process to fill vacant positions."
- The U.S. responded to Amb. Walker's statement noting appreciation for Amb. Walker and others for their engagement but U.S. officials continue to maintain that no solution is achievable without an understanding of "why" the Appellate Body has strayed from its mandate in the Dispute Settlement Understanding. Several observers acknowledged the Council's decision is an important first step, but the window for resolution of the AB impasse prior to the December expiration of two panelists' appointment has closed.
- Fellow members of the WTO criticized the U.S. at the General Council meeting for its attempts to stop the ability to self-designate as "developing" and enjoy special and differential treatment, saying that these attempts threaten the WTO's foundations. "Any unilateral attack on [special and differential treatment] is an onslaught on the very tenets of multilateralism that the WTO seeks to protect...This will cause lasting and systematic damage to the multilateral trading system" India stated during the meeting. U.S. Ambassador to the WTO Dennis Shea defended the U.S.'s position, calling out countries such as China and pointing to several indicators, such as membership in the G20 or OECD, as evidence that many countries claiming developing status are capable of defending their interests in negotiations without the protection of special and differential treatment.



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