



Food & Agriculture Trade Update

October 13, 2020

Provided by CRA

HIGHLIGHTS

- **U.S. – China:** China’s steady purchases of U.S. agriculture products continue yet remain an estimated 37% off the pace needed to meet the \$13.8 billion level set out in the phase one deal.
- **U.S. – U.K.:** U.K. International Trade Secretary Liz Truss reiterated the country’s commitment to food safety but simultaneously stated the country does not want to exclude lower-quality imports from developing countries in trade agreements.
- **USMCA:** Nearly 70 U.S. industry groups sent a [letter](#) to Canadian International Trade Minister stating that the new plastics ban would constitute a non-tariff barrier, violating both USMCA and WTO obligations.
- **WTO:** The WTO Director-General race was winnowed to two candidates: Nigeria’s Ngozi Okonjo-Iweala and South Korea’s Yoo Myung-hee ensuring a historic selection of the first female WTO leader.

Quote of the week: “Overall, the Trump trade policy is working in spite of the virus.”

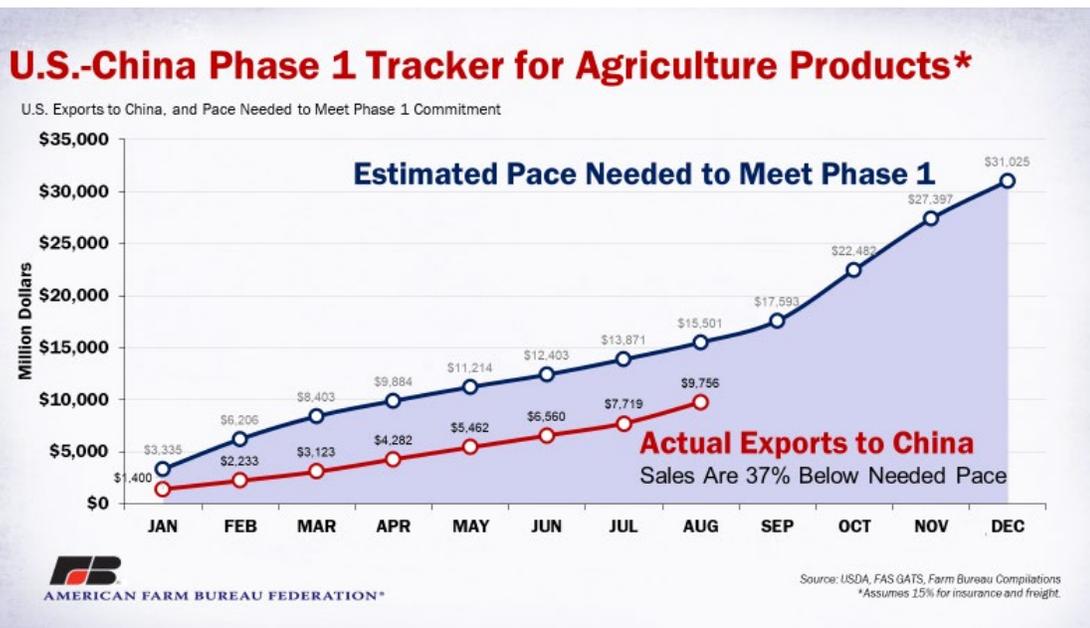
(USTR Robert Lighthizer, comment on latest U.S. trade deficit which widened to highest level since 2006)

China Trade

- Recently, President Trump took another step to decouple U.S. reliance on China, threatening U.S. tariffs and issuing an Executive Order increasing domestic mining to lessen U.S. reliance on critical minerals from China. “A strong America cannot be dependent on imports from foreign adversaries for the critical minerals that are increasingly necessary to maintain our economic and military strength in the 21st century,” the President said in the [Executive Order](#). The Order noted 35 minerals that are “essential to the economic and national security of the United States,” and serve “an essential function in the manufacturing of a product, the absence of which would have significant consequences for our economy or our national security.” Of the 35 critical minerals identified, 14 are not produced in the United States.
- “China has exploited its position in the rare earth elements market by coercing industries that rely on these elements to locate their facilities, intellectual property, and technology in China.” The President, declaring a national emergency in the Order, calls for a multi-agency report led by the Secretary of Interior to advise on whether the imposition of tariffs or quotas or other import restrictions against China and other non-market foreign adversaries are required.

Phase One Agreement

- China’s year-to-date U.S. agricultural product purchases are 37% off the pace needed to meet the overall purchase level in the phase one deal. The purchase levels are an improvement from the 44% lag in the prior month. China’s 2020 agriculture purchases through August totaled \$9.7 billion and are significantly below the \$13.8 billion year-to-date level that is needed to meet the phase one commitments based on the target value, the historical pace, and the baseline year set out in the agreement. While Chinese purchases in the poultry, livestock, and meats sector are above the 2017 purchase levels, purchases in other agriculture sectors (e.g. grains and oilseeds) lag 2017 purchase levels – the baseline year for the phase one agreement. *(For further details on tracking select agriculture sectors and U.S. exports to China under the phase one deal see last page).*



- U.S. Department of Agriculture Secretary Sonny Perdue raised doubts over China’s fulfillment of its purchasing commitments for agriculture products in the phase one agreement. In spite of a considerable buying increase in August and September of around 12 million ton of soybeans and 4 million tons of corn, Perdue stated, “I’m not sure they’re going to make it, but they’re trying. Non-agricultural trade issues get in the way.”

USMCA

- Last week nearly 70 industry groups from the U.S. sent a [letter](#) to Canadian International Trade Minister Mary Ng stating that the new plastics ban would be considered a non-tariff barrier, violating both USMCA and WTO obligations. Youmy Han, a spokesperson for Ng stated, “Our work to ban single use plastics will respect all our commitments in the new NAFTA. As per our government’s approach to trade, the new NAFTA in no way prevents Canada from taking strong action to protect the environment.” The ban includes single use-plastic items such as bags, straws, stir sticks, six-pack rings, cutlery and food containers made from expanded polystyrene.
- Mexican officials are preparing for the expected U.S. labor complaint. Mexican economic secretary Graciela Márquez Colín indicated the readiness of the government to respond to a U.S. labor complaint under USMCA. The AFL-CIO complaint is likely to be filed under USMCA’s facility-specific rapid-response mechanism, a tool which would be utilized for the first time. Márquez Colín stated, “We’re ready to respond, we’re ready to implement the rapid-response mechanism, but we do not expect [it].” She added, “We need to receive the request, [then] we will act promptly and according to what was regulated.” In preparation of a response, Mexico also recently established a rapid-response labor mechanism task force.
- As noted earlier, the AFL-CIO intends to file the first USMCA labor complaint against Mexico. Richard Trumka, AFL-CIO President stated, “We will file a case within the next 30 days.” The complaint could utilize the USMCA’s facility-specific rapid-response mechanism, a mechanism inserted as an [annex](#) into the USMCA after intense negotiations between House Democrats and USTR. The other filing mechanism is via the USMCA labor chapter provision. “We think that when we do the rapid-response, and if we’re able to block products from coming in, it will get their attention real fast and they will understand that they will have to change and comply with the law.”



*Graciela Márquez Colín,
Secretary of Economy,
Mexico*

U.S.-U.K. Trade Agreement

- U.K. International Trade Secretary Liz Truss reiterated the country's commitment to safety but simultaneously does not want to exclude lower-quality imports from developing countries in trade agreements. "I want to make sure our farmers are continue with their high standards, but I don't want to stop developing countries their goods to us," Truss said. The statements by Truss may have implications for the trade negotiations where agriculture remains a controversial obstacle to an agreement. U.K. Shadow Trade Secretary Emily Thornberry [stated](#) that, "if the U.K. trade deal with the U.S. that brings down prohibitively high U.K. tariffs on imported there is nothing stopping pork produced in lower-standard conditions from undercutting British farmers." To mitigate domestic concerns, she added, "In any trade deal we strike we will be taking into account our high standards to make sure our farmers aren't undermined."
- Optimism fades for a U.S.-U.K. agreement by the end of the year absent significant progress according to Dan Ikenson, director of the Cato Institute. Mr. Ikenson stated, "There are political obstacles, there are substantive obstacles, there are timing obstacles." The second deadline is April 2021, prior to the Trade Promotion Authority, legislation that fast tracks trade agreements through Congress. Lis Truss recently acknowledged progress in negotiations by stating, "We've pretty much laid all the text on both sides. We are now in a position of consolidating those texts, so if you like that's laying the foundations of the deal." A fifth round of bilateral talks are expected later this month, the last round prior to the U.S. presidential election.



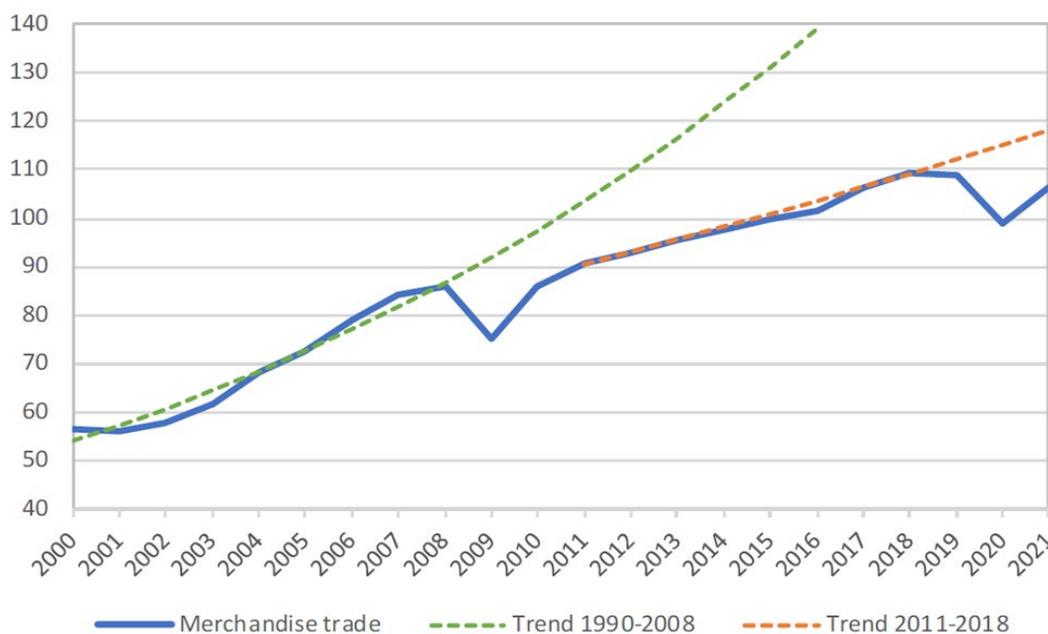
Emily Thornberry, U.K. Shadow Trade Secretary

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COVID-19 Developments

- The WTO issued an updated [Trade Forecast](#) estimating a 9.2% decline in the volume of world merchandise trade for 2020, followed by a 7.2% rise in 2021. In the press release the WTO noted that, "these data suggests a projected decline for the current year that is less severe than the 12.9% drop foreseen under the more optimistic of two scenarios outlined in the WTO's April trade forecast. Strong trade performance in June and July have brought some signs of optimism for overall trade growth in 2020."

World merchandise trade volume, 2000-2021 (Indices, 2015=100)



Source: WTO Secretariat.

Note: Figures for 2020 and 2021 are projections.

- The Commerce Department reported the monthly U.S. trade deficit in goods hit a record high in August. The overall

State Bank of Vietnam – undertook net purchases of foreign exchange in 2019 totaling about \$22 billion.”

Section 232 Tariff Actions

Ongoing 232 Investigations

- The Vanadium investigation is one of three ongoing 232 investigations at the Department of Commerce under “threat to national security” provision contained in section 232 of the Trade Expansion Act of 1962. The other investigations involve transformer parts and mobile cranes. The Department of Commerce has 270 days to provide a report to President Trump determining whether the imports in question threaten to impair U.S. national security, along with a recommendation for action. The President will then have 90 days to determine whether to impose restrictions so that imports no longer threaten national security.

U.S.-Japan Trade Developments

- As reported earlier, Rep. Adrian Smith (R-NE) advocated advancing the U.S.- Japan Phase Two trade deal. In [a statement](#), Smith wrote, “After much negotiation, Phase One -- which reduced tariffs on an estimated 90 percent of food and agriculture products exported to Japan -- was a great accomplishment. However, there is much more to be done.” Phase Two according to Smith would include goods such as automobiles, pharmaceuticals, and insurance services.
- USTR remains fairly quiet on timing of phase two talks with Japan. Earlier this year Amb. Lighthizer conceded that the coronavirus has delayed phase two negotiations with Japan. During Congressional testimony, Amb. Lighthizer said he would expect the phase two talks to start “in the next couple of months.” Prior to the outbreak of COVID-19, commencement of negotiations on a phase two or a comprehensive trade deal were expected no earlier than May according to sources.

U.S. – EU Trade

- U.S. Agriculture Secretary Sonny Perdue indicated the U.S. may bring a complaint to the WTO over the EU’s Farm to Fork legislation that restricts the use of pesticides and restricts fertilizers permissible in agricultural goods in favor of organic farming. While hoping for a diplomatic resolution, Perdue stated, “If the protectionism does come into play in that role, then WTO courts are one avenue.”
- USDA officials have repeatedly expressed concern with the EU policy. Ted McKinney, USDA’s Undersecretary of Agriculture for Trade and Foreign Agricultural Affairs, criticized the EU’s Farm to Fork initiative as “misguided” and stating it will cause a “battle royale” in U.S.- EU trade. McKinney indicated that 35 countries have expressed their concern over the EU policy.

Civil Aircraft Disputes

- With the \$4 billion award announced by the WTO in the Boeing suit, it remains unclear whether the EU will move quickly to trigger its tariffs against the U.S. or await the outcome of the Nov. 3 election. The WTO announcement paves the way for the EU to impose tariffs on \$4 billion of U.S. exports over illegal government aid provided to Chicago-based Boeing. The \$4 billion judgement was smaller than the \$12 billion the EU had expected and much higher than the \$300 million that the U.S. argued was appropriate.
- The EU had previously said it would impose tariffs immediately upon the WTO arbitrator’s decision to counteract \$7.5 billion of tariffs the U.S. imposed on EU goods after a separate favorable WTO ruling against Airbus’ illegal launch aid program. The WTO award level in the Boeing dispute settlement ruling at \$4 billion ranks third, behind the Foreign Sales Corporation (FSC) case and the U.S. case against Airbus’ illegal launch aid.

French Digital Services Tax

- Last week, the OECD aimed to wrap up negotiations on international tax rules, including a uniform digital services tax regime. Reaching an agreement remains challenging, according to sources close to the talks. The Trump Administration has threatened to impose tariffs on France and other countries that have unilaterally adopted digital services tax regimes that allegedly target US companies. Recent press reports suggest countries engaged in the

OECD talks are likely to agree to an extension through the end of next year. OECD officials believe that the COVID-19 pandemic and the upcoming U.S. Presidential election have severely hampered efforts in reaching an agreement by the end of this year, as originally planned.

- The OECD talks, known as an “Inclusive Framework” for an international digital tax agreement involve more than 130 countries. The OECD is expected to release a draft text for public review soon but is likely to miss the original deadline of December to reach an agreement. Without an extension, retaliatory tariffs on French products by the U.S. becomes more likely while France could advance its digital tax in 2021. France suspended imposing the digital tax 180 days to promote a solution through OECD talks on a broader digital tax accord but is urging the European Commission to make a formal proposal for a digital tax in the first quarter of 2021 anticipating unsuccessful OECD talks.
- Earlier in the year, USTR threatened section 301 tariffs on French goods before both sides agreed to pursue OECD talks aimed at securing an international agreement. The pending [USTR](#) tariff list covers \$1.3 billion worth of French goods including 25% tariffs on soap, handbags and cosmetic products (fashion tariffs). Other sensitive products, like French wine and cheese, were not included. The tariffs are delayed up to 180 days (i.e. Jan. 6, 2021) – as long as France continues to defer imposition of the tax. The potential tariffs result from a Section 301 investigation in which USTR concluded and announced it had found France’s tax would discriminate against U.S. companies.

U.S.-Brazil

- Brazil’s Assistant Deputy Minister for Foreign Trade and International Affairs, Dumaresq, indicated that a limited trade agreement with the U.S. will likely be the end of October. The deal could cover an agreement on trade facilitation, regulatory practices, and anticorruption. U.S. stakeholders hope the two can reach a more comprehensive trade pact in the future. Additionally, U.S. and continuing market access negotiations for steel, ethanol, sugar, and corn. Earlier in the year during Congressional trade hearings, USTR Robert Lighthizer noted a notion of a limited bilateral deal with Brazil citing the Administration’s concerns rights and other issues.



Yana Dumaresq, Brazil's Deputy Minister, Foreign Trade & Intl. Affairs

Yana reached by good countries Brazil are products. panned the over human

- The comments by Mr. Dumaresq follow on the 11th United States-Brazil CEO which consisted of 19 CEOs and various high-level government officials from both countries to discuss progress in private sector priorities for the two nations. The [press release](#) states, “Trade facilitation continues to be a priority issue for both countries given the potential to reduce unnecessarily burdensome regulations, cut costs, and increase trade flows between the United States and Brazil.” Brazil noted its prioritization of good regulatory practices and its commitment to converge with OECD policies, to which U.S. Department of Commerce Secretary Wilbur Ross reaffirmed support towards Brazil’s accession.

Forum

U.S. – Kenya Trade Developments

- The U.S and Kenya are expected to begin the next round of trade negotiations on Oct. 21 and end early November. In the upcoming round, both the U.S. and Kenya expect to exchange text on several chapters. Observers suggested a Trump victory in November would likely generate a subsequent round in December. Biden has not stated whether he would move forward with the U.S.-Kenya FTA.

Seasonal Produce

- The section 201 blueberry investigation has been deemed extraordinarily complicated by the U.S. International Trade Commission (USITC), triggering a 15-day extension. The extra days push the deadline for an injury decision to Feb. 11, 2021 and the report will be sent to the president by March 29. The recent notice stated, “The Commission’s decision to designate this investigation ‘extraordinarily complicated’ is based on the complexity of the investigation, including the need to collect data and other information from a large number of firms involved in the domestic production, processing, and/or marketing of blueberries.” The solar panel product investigation was the only other safeguard investigation to be determined as extraordinarily complicated.

- Earlier, USTR formally [announced](#) the global safeguard investigation under section 201 authority regarding blueberry imports. The investigation is conducted by the USITC at the behest of USTR and is a major component of the Seasonal Produce Plan announced by USTR on Sep. 1. In announcing the official request, Amb. Lighthizer stated, “President Trump recognizes the challenges faced by farmers across the country, and today’s action is just one of a number of steps the Administration is taking to support American producers of seasonal and perishable agricultural products.” As noted in the USTR press release, the USITC “will publish notice of the commencement of this proceeding in the Federal Register and will hold public hearings at which the ITC will afford interested parties and consumers an opportunity to present evidence or otherwise be heard.”

U.S. – India Trade Developments

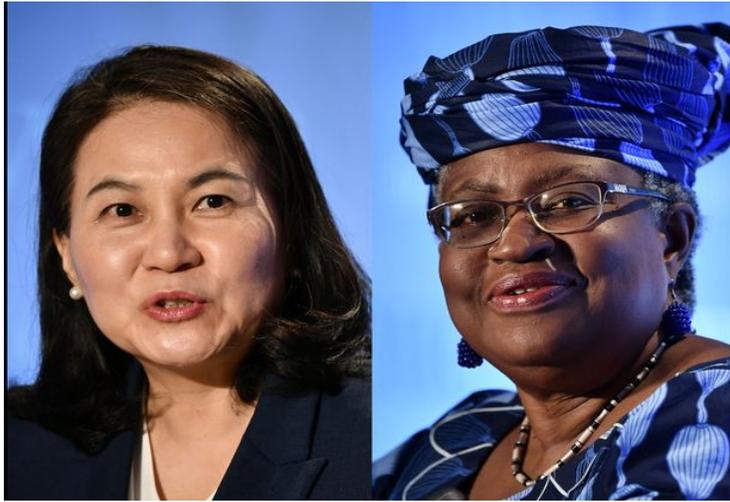
- No significant updates on a potential U.S. – India limited trade deal. As reported earlier, former USTR official, said the White House should move swiftly to “seize the opportunity” to conclude a limited deal with India, contending the U.S. should do so before India gets “cold feet.” Mark Linscott, a former USTR negotiator said, “It’s just hard to fathom why it’s not getting done.” Linscott expanded on the mini-deal stating, “It definitely would solve some immediate problems on the U.S. side, from medical devices to getting some new access on agriculture to some tariff cuts. On the Indian side, it would be essentially the restoration of GSP benefits, which shouldn’t be a big lift on the U.S. side.” USTR has not publicly responded to conclude the trade deal.
- Similarly, India’s Commerce Minister Piyush Goyal said, “India is open to signing on what we have agreed on.” “I’ve left it to [Lighthizer] to make the final call,” he added. Goyal had previously noted that after two years of negotiations a deal is in reach. “We are almost there,” Minister Goyal said at an event hosted by the U.S.-India Business council in July. Goyal emphasized that the U.S. and Indian leaders should also look at a preferential trade pact with 50 to 100 products and move to a comprehensive free trade pact in the long term.

WTO

- Canada recently raised concerns to the WTO that the U.S. is unfairly delaying the lumber duty dispute. The U.S. recently appealed the WTO decision against the 2017 U.S. duties imposed on lumber. By blocking any appointments of new judges to the appellate body and refusing separate arbitration appeals, the U.S. has effectively pushed the case into legal limbo. Canadian trade minister Mary Ng stated in a statement, “These duties have caused unjustified harm to Canadian industry and U.S. consumers alike and are impeding economic recovery on both sides of the border.”
- As noted earlier, Canada and several other WTO members have lodged complaints or expressed concerns with rising levels of U.S. agriculture subsidies. In a recent WTO’s Committee on Agriculture, Canada said it was concerned with President Donald Trump’s plans to send another \$14 billion to the farm industry, which comes on top of about \$20 billion in coronavirus relief since May. The financial aid level could run afoul of a U.S. commitment made in 1994 to limit its “trade-distorting” farm subsidies to \$19.1 billion each year. Australia, Brazil, Colombia, India, Paraguay, Uruguay and New Zealand have also expressed concerns over the high level of U.S. payments to the agriculture sector

WTO Leadership

- And then there were two. The WTO Director-General candidate pool [narrowed to two candidates](#) last week: Nigeria’s Ngozi Okonjo-Iweala and South Korea’s Yoo Myung-hee. The decision sets the stage for the first female leader and first African to the lead the global trade institution.



WTO Director-General finalists, Yoo Myung-hee and Ngozi Okonjo-Iweala

- Amb. Walker, Chair of the WTO General Council, noted that throughout the DG selection process, the ultimate objective is to secure a consensus decision by members on the next Director-General. "Our aim continues to be to encourage and facilitate the building of consensus among members, and to assist in moving from this final slate of two candidates to a decision on appointment. As this is the final round of the consultation process, it should bring us to the point where we can make a recommendation to the General Council concerning that decision," Amb. Walker said.
- Amb. Walker stated the third phase of consultations will run October 19-27 allowing WTO members sufficient time to prepare their positions. During this period, WTO members will be asked in confidential consultations to indicate their preferred candidate to Amb. Walker of New Zealand, Amb. Castillo, chair of the Dispute Settlement Body, and Amb. Aspelund, chair of the Trade Policy Review Body, known as the "troika" leading the DG selection process. Amb. Walker would then call a formal General Council meeting and present the recommendation to the membership for a formal decision, with a decision by November 7th.

WTO DG Candidates – Round 3

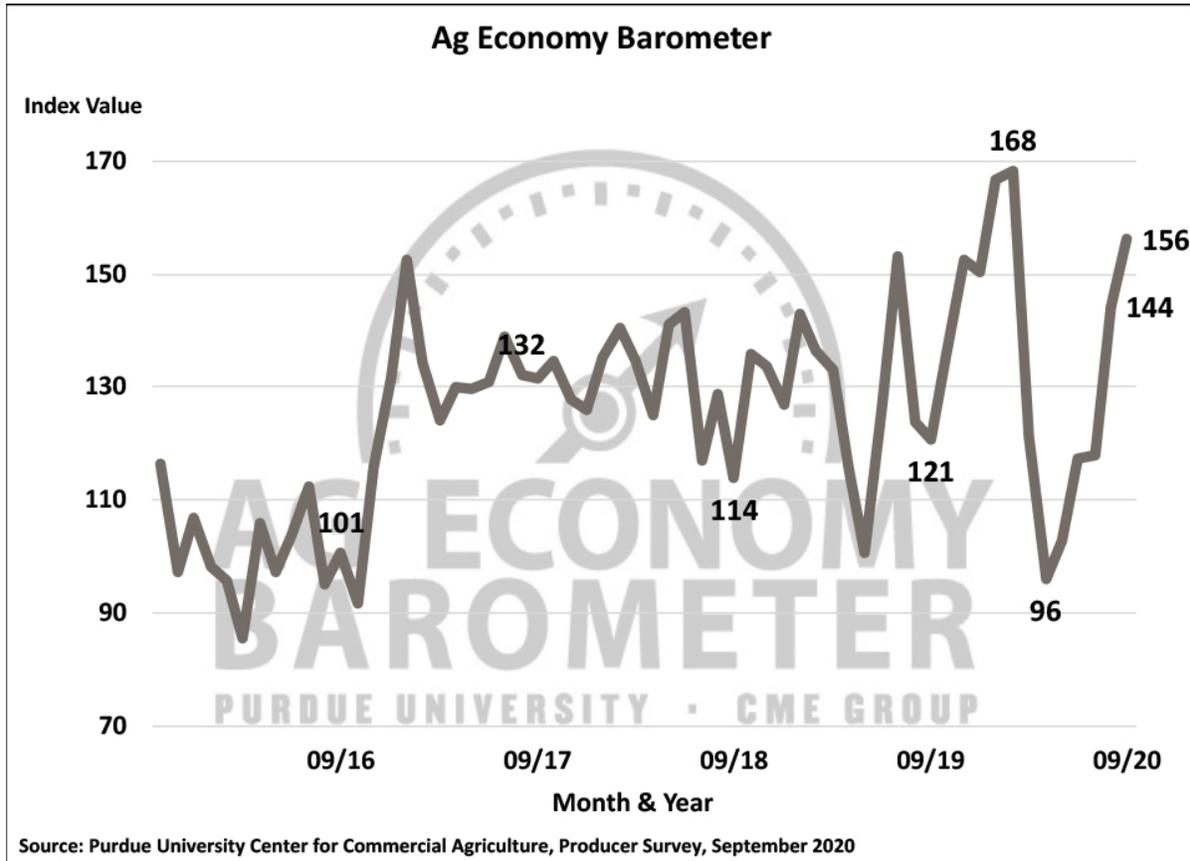
Candidate	Country	Experience
Ngozi Okonjo-Iweala	Nigeria	World Bank executive, Minister of finance, economy, and foreign affairs for Nigeria Biography
Yoo Myung-hee	South Korea	Trade Minister for the Republic of Korea Biography

WTO Reform

- As reported earlier, WTO Deputy Director-General Alan Wolff called for member countries to create a "useful forum" for instituting structural reform and for a "conservative form of revolution" for the struggling organization. "A key question is how to proceed on WTO reform. The table is not fully set, the work has not been organized to have a Big Bang to create a new universe for trade," Wolff said in [remarks](#) at the opening plenary of [Geneva Trade Week](#). Wolff said, "The first task is to create a useful forum at the WTO to discuss specific structural changes in the organization and its rules." Wolff echoed calls for improving rather than dismantling the WTO expressing the "hope" that something better would come from reform. "What is needed is a conservative form of revolution," he said. "There must be forward motion. This can be incremental, or it can be more comprehensive, more systemic. Some might think that the geopolitical psychology is not right to attempt major reform. But a start can be made."

Ag Economy Barometer

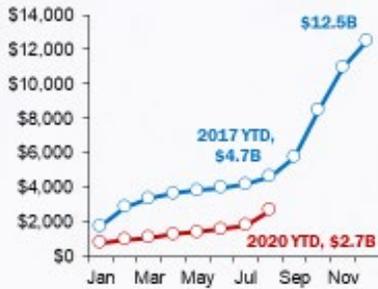
- The Ag Economy Barometer continued to improve in September, climbing to an index value of 156, 12 points higher than the previous month. The improvement in sentiment was in part propelled by anticipation of a second set of Coronavirus Food Assistance Program (CFAP 2) payments, diminishing concerns, and strengthening fall harvested crop prices since the prior months survey. In particular, cash corn prices rose nearly \$0.20 per bushel, while cash soybean prices rose nearly \$1 per bushel. The Ag Economy Barometer index has rebounded 60 points since the low of 96 points during the early months of COVID-19's grip on the U.S. economy.



Agricultural Exports to China for Select Products

2020 Calendar Year Exports With Comparison to 2017
 "Baseline" Pace, Million Dollars

Oilseeds & Products



Grains & Feeds



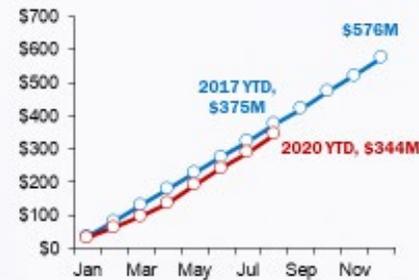
Livestock & Meats



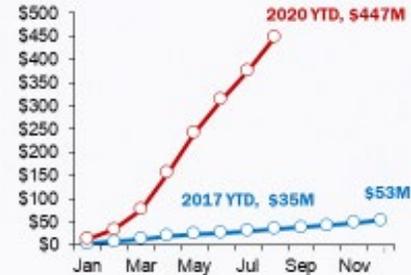
Cotton, Linters & Waste



Dairy & Products



Poultry & Products



Source: USDA, FAS GATS,
 Farm Bureau Compilations