TRADE UPDATE
Food & Agriculture

November 10, 2020

Provided by CRA

HIGHLIGHTS

- **U.S. – China:** Chinese President Xi said China will import over $22 trillion worth of goods over the next decade as the country accelerates its economic expansion. China's year-to-date U.S. agricultural product purchases continue to accelerate closing the gap on the lagging pace of purchases from 37% to 27% under the Phase One deal purchase commitments.
- **WTO:** The WTO General Council chair, David Walker, postponed this week's General Council meeting amid new pandemic-related restrictions in Geneva, Switzerland and an ongoing impasse among the membership on the Director-General selection.
- **U.S. – U.K.**: The U.S. and U.K. just finished their fifth round of talks. The most recent round entailed 38 sessions on 19 different chapter areas of the trade deal and were characterized as "most intensive" yet.
- **USMCA:** House Democrats released a USMCA Report Card that details "grave concerns," and specific issues, including labor enforcement, labor funding in Mexico, auto rules, and dairy provisions.
- **U.S. – EU:** The EU confirmed Monday imposition of tariffs of 15% on U.S. aircraft and 25% on U.S. agricultural goods, with a total value of $4 billion under the WTO ruling on U.S. subsidies for Boeing civil aircraft **[NEW - see EU list]**.

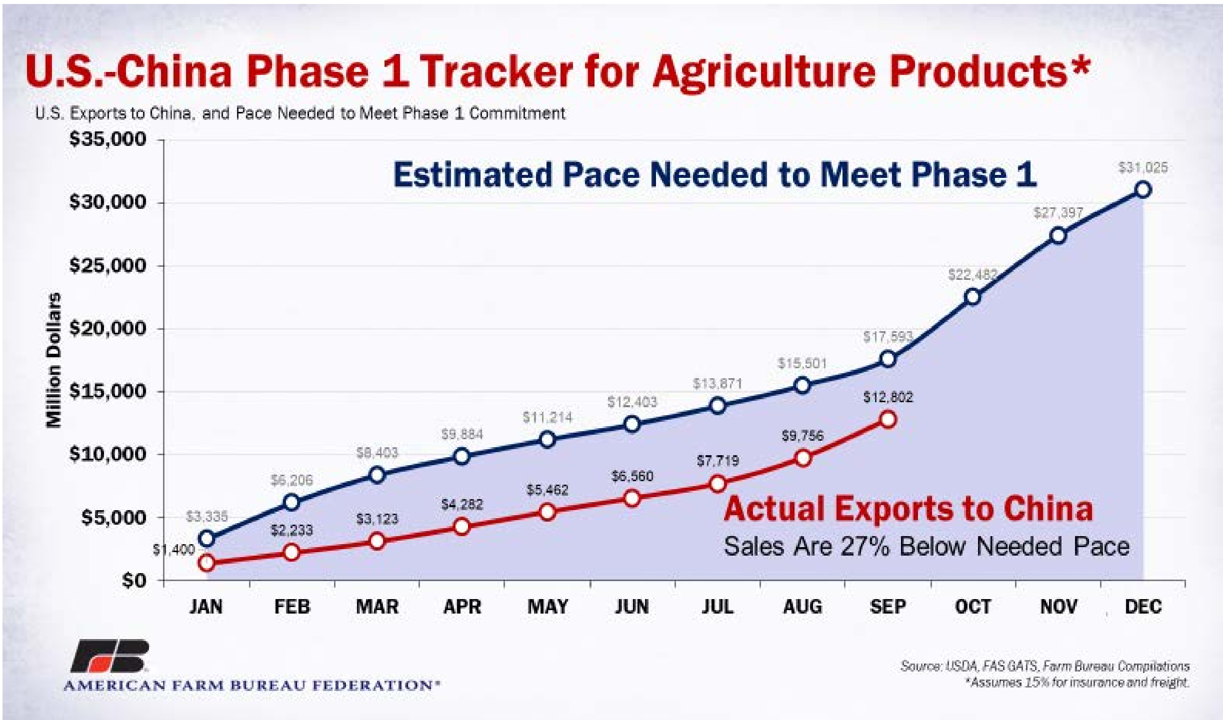
Quote of the week: "We should take a constructive stance to reform the global economic governance system and promote an open world economy" (*Chinese President Xi Jinping during the 19th Communist Party of China Central Committee in Beijing*)

China Trade

- Chinese President Xi said China will import over $22 trillion worth of goods over the next decade as the country accelerates opening the economy, according to *Reuters*. China plans to reduce the number of restricted goods and technology imports, increase the number of high-quality trade agreements and aims to treat all companies registered in China equally. Xi stated, "We should take a constructive stance to reform the global economic governance system and promote an open world economy."
- As reported earlier, both China and the U.S. issued complaints at the WTO's Committee on Subsidies and Countervailing Measures. The U.S. and the EU stated China has inadequately reported steel and semiconductor sector subsidies to the WTO. China adamantly defended the allegations by arguing the subsidies are not specific to an industry and that it publishes abundant information online, therefore fully complying with transparency obligations. *Inside U.S. Trade* reported that the U.S., EU, and Japan proposed an amendment to the Agreement on Subsidies and Countervailing Measures (ASCM) that would strengthen its rules to curb state subsidies and enhance transparency. China opposed this proposal, while Canada, Norway, Brazil, the United Kingdom and Australia indicated their support.
- At the same time, China said U.S. actions to investigate currency valuation as a countervailable subsidy abuses the WTO system. Commerce designed the new rule to investigate whether Vietnam's currency is undervalued within a trade remedy case. China argued that the ASCM does not authorize currency investigations and the U.S. rule is "a total abuse of the WTO's countervailing disciplines." The U.S. only responded by stating the Commerce rule was not on the agenda.

Phase One Agreement

- China's year-to-date U.S. agricultural product purchases continue to accelerate yet are 27% off the pace needed to meet the overall purchase level in the phase one deal. The gap in purchase levels continued to shrink in September, narrowing 10 percentage points, from a 37% lag in the prior month. China's 2020 agriculture purchases through September totaled $12.8 billion and remain 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*. (For further details on tracking select agriculture sectors and U.S. exports to China under the phase one deal see last page).*



- Prior analysis by USTR and USDA indicated China had bought about $23 billion in U.S. agriculture goods in 2020 equating to around 71% of the target amount set out in the Phase One Agreement. USTR stated, "Since the Agreement entered into force eight months ago, we have seen remarkable improvements in our agricultural trade relationship with China, which will benefit our farmers and ranchers for years to come." The joint report further touted that under the deal the U.S. has successfully addressed 50 of the 57 technical commitments regarding structural barriers in China that had been impeding exports of U.S. food and agricultural products.
- The report noted that "it is still to be seen whether they meet their target but particularly given the COVID-19 effects on the global economy they are making substantial progress." "It is worth noting that the Phase One Agreement did not go into effect until February 14, 2020, and March is the first full month of its effect. That means that we have seen seven months of agreement sales," the report said.

U.S.-U.K. Trade Agreement

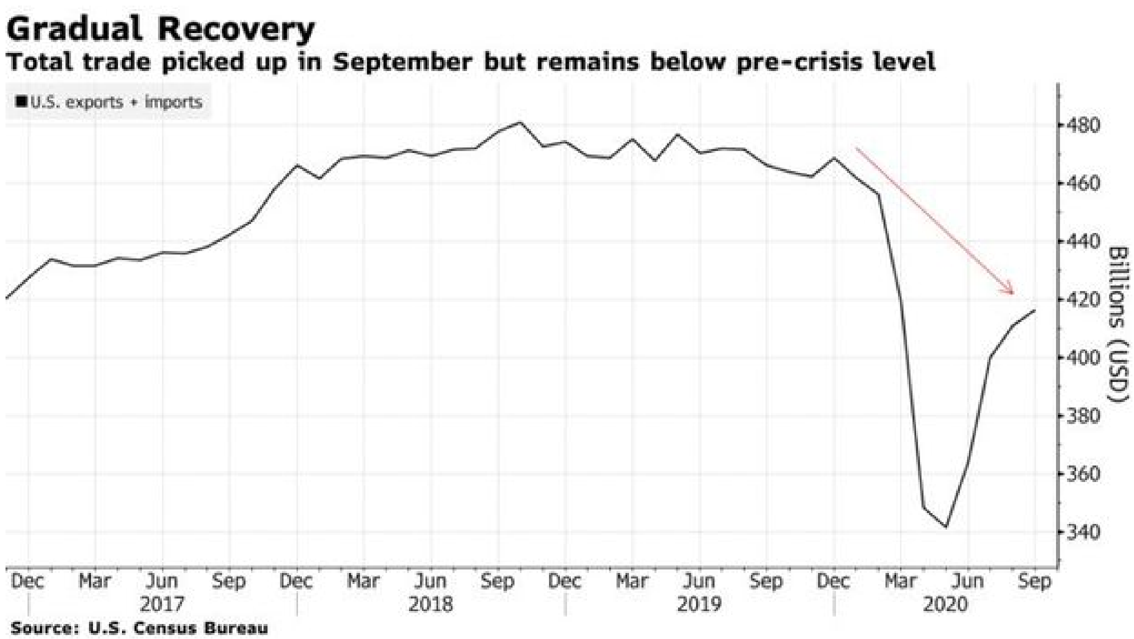
- The U.S. and U.K. concluded their fifth round of talks. The most recent round covered digital and environmental issues, as well as a state to state dispute settlement mechanism. U.K. Trade Secretary Liz Truss called the fifth round of talks "the most intensive" as it covered 38 sessions on 19 different chapter areas of the trade deal. British negotiators sought to reach advanced stages prior to the U.S. election to guarantee a smooth transition in a Biden transition. No further word on scheduling for the next round of negotiations.
- Separately, Liz Truss said the U.K. should not prevent all imports that do not meet the country's high food safety and animal welfare standards, but it must protect its producers from such imports with quotas, tariffs and safeguards, as reported by *Inside Trade*. She emphasized the continuation of the chlorine-washed chickens and hormone-beef ban and will address the other issues on a case-by case basis. "What we can't do, which has been proposed by various amendments [to an agriculture bill in Parliament], is to say every single country has to follow British farm regulations absolutely because that would just stop

imports from vast parts of the world, including developing countries," Truss said. "But what we will do is -- on a pragmatic basis in individual trade deals -- is use techniques like quotas, tariffs and safeguards to make sure that our farmers aren't unfairly undercut by products that don't follow the same high standards that we do in the United Kingdom."

- Senate Finance Chair Chuck Grassley (R-Iowa) urged completion of a U.S.-U.K. free trade agreement prior to the TPA expiration. In a report by *Politico,* Grassley said, "It's very necessary that this is hurried along either in another Trump administration or in a Biden administration." "Because TPA, the authority to negotiate, is going to phase out the middle of next year. And if [the deal] is not done by then, it's questionable when it will get done." TPA will expire on July 1st and the last time TPA expired, it took Congress was eight years to renew it.

COVID-19 Developments

- September's U.S. trade deficit report revealed a narrowing deficit for the first time in three months as exports increased and previously rising imports slowed. Total trade activity remains significantly below pre-pandemic levels. The international trade deficit in goods and services decreased to $63.9 billion in September from $67.0 billion in August.



USMCA

- House Ways and Means Committee Democrats added their voice to the mounting criticisms over the administration's handling of USMCA implementation and enforcement. Committee Chairman Richard Neal (D-Mass) said, "The Trump Administration's lackadaisical approach to implementing and enforcing the USMCA is an affront to American workers, threat to the health of our hemisphere's environment, and disservice to the US economy." The Ways and Means group indicated specific concerns with the administration's failure to enforce USMCA's labor and environmental standards. They also plan to closely monitor the USMCA's provisions on autos and Canada's actions that could disadvantage U.S. dairy farmers.

Richard Neal, Congressman

- The Democrats issued a report card on the Trump Administration's USMCA Implementation outlining the list of USMCA concerns including:
  - Delayed establishment of the Forced Labor Enforcement Task Force and the Task Force's failure to issue its first report, which is now two months overdue;
  - Slow disbursement of funds designated to promote labor reforms and worker rights in Mexico;
  - Failure to proactively monitor and enforce the USMCA's new labor standards; and

- o Lack of utilization of resources intended to enforce the USMCA's environmental obligations.

The Report Card noted, after an intensive renegotiation of key terms of United States-Mexico-Canada Agreement (USMCA) between House Democrats and the Trump Administration, revisions were agreed to between the United States, Mexico, and Canada in December 2019; the USMCA Implementation Act was approved by Congress with historic levels of bipartisan, bicameral support; and the USMCA officially entered into force on July 1, 2020. Nine months since the USMCA Implementation Act was enacted and four months since the USMCA took effect, here is where the Trump Administration's USMCA implementation and enforcement efforts stand. The Report Card goes into detail on grave concerns, and specific issues, including labor enforcement, labor funding in Mexico, auto rules, and dairy provisions.

- In response to mounting Congressional and industry concerns on USMCA enforcement, Senate Finance Chairman Chuck Grassley conveyed that USTR is prepared to take appropriate action. "I think we're properly prepared for whatever action might be taken," Grassley told reporters, noting a recent conversation with Amb. Lighthizer on the issue. "I have concerns about enforcement of dairy with Canada. I have concerns about enforcement of steel and biotechnology with Mexico. But we have the agreement and there's enforcement mechanisms in the agreement and I'm satisfied that through talks or through forceful action -- whatever's necessary -- USTR's going to take necessary action if they don't get it settled otherwise." "He's prepared to take action," Grassley said.
- As reported earlier, in a letter, USW requested President Trump address concerns of a potential USCMA violation over the arrest of a Mexican labor leader. USW President Thomas Conway said he is "very concerned about the criminal charges that have been filed against Mexican independent trade union lawyer and attorney Susana Prieto Terrazas by the state governments of Tamaulipas and Chihuahua." Conway wrote, "These actions appear to be calculated to send a message to workers and their advocates that any attempt to exercise rights guaranteed under the USMCA and Mexico's labor law reforms will be harshly suppressed. I urge you to communicate these concerns to the Mexican authorities."
- Additional USMCA enforcement concerns were raised by Senator Ron Wyden (D-OR), saying Trump administration is falling short of promised USMCA enforced commitments made by Mexico and Canada. In a letter to President Trump on October 30, Sen. Wyden listed several enforcement areas, Labor violations by Mexico, lack of clarity on new auto rules, Mexico's failure to implement anti-corruption updates, dairy concerns with both Canada and Mexico, and Mexico's lack of agricultural biotechnology approvals. "It is critical that Mexico and Canada meet their obligations if American workers, farmers, businesses, and consumers are to reap the full benefits you promised they would receive from USMCA," Wyden said in his letter.

U.S.-Vietnam

- The U.S. Commerce Department, for the first time ever, has imposed countervailing duties on goods in response to a country's currency practices. In the particular case, the U.S. said Vietnam unfairly subsidized tire producers. A Nov. 4 statement read, "The Commerce Department preliminarily determined that exporters and producers from Vietnam received [countervailable] subsidies with rates ranging from 6.23 percent to 10.08 percent." "Among the subsidies preliminarily countervailed is Vietnam's undervalued currency -- making this the first time that Commerce has ever made an affirmative CVD determination regarding a foreign currency with a unitary exchange rate." The decision will likely set a precedent and the U.S. may file more currency-related trade cases in the future.
- If the Commerce Department investigation finds Vietnam undervalues its currency, it could lead to U.S. duties on a wide range of Vietnam exports to the U.S. The public comment period will close next week, and a final duty determination will be announced around March 16. The Trump administration also is conducting a probe into Vietnam's currency practices under Section 301 of the Trade Act of 1974.

Section 301 Investigations

- No significant updates on the section 301 investigation into Vietnam's currency practices. As reported earlier. Prime Minister Nguyen Xuan Phuc said Vietnam's exchange rate policy was not aimed at helping its exports and asked that President Trump have "a more objective assessment of the reality in Vietnam." "If the dong is devalued, it will seriously hurt the economy," Prime Minister Phuc said and concluded that, "Vietnam is not using exchange rate policy to create competitive advantage in international trade."

- The USTR launched the section 301 investigation on Vietnam on Oct. 2 and issued a press release which stated, "USTR will investigate Vietnam's acts, policies, and practices related to the import and use of timber that is illegally harvested or traded, and will investigate Vietnam's acts, policies, and practices that may contribute to the undervaluation of its currency and the resultant harm caused to U.S. commerce."

Section 232 Investigations

- The Trump Administration is poised to impose section 232 trade remedies on transformer parts, according the steel company behind the petition for the section 232 investigation. Cleveland-Cliffs Inc., the parent company of that AK Steel, reported last week in a press release, "President Trump's Administration will be moving forward with a Section 232 action implementing a remedy covering imported laminations and cores of Grain Oriented Electrical Steel (GOES)." No official announcement from the administration to date, yet sources indicated that "things are moving in the right direction." The Commerce Department initiated its investigation on May 11 into national security concerns regarding imports of transformer parts (e.g. laminations for stacked cores for incorporation into transformers, stacked and wound cores for incorporation into transformers, electrical transformers and transformer regulators). The Commerce reported was delivered to the President last month and it remains unclear if Commerce recommended trade remedy actions.
- Mexico will avoid any section 232 tariffs for grain oriented electrical steel (GOES) related to the transformer parts investigation. Amb. Lighthizer reported that Mexico agreed to create a "strict monitoring regime" for those exports composed of GOES to avoid section 232 tariffs. In a statement, USTR reported that the U.S. and Mexico concluded consultations via a mechanism established in a May 2019 agreement to "address the transshipment" of GOES "from outside the North American region into the United States through GOES-containing downstream products." Under the agreement, Mexico will promptly create a monitoring regime and starting in fourth quarter, that regime will "closely monitor shipments of these products to the United States," according to the statement.
- Under section 232, the President must render a decision no later than 90 days after receiving the Commerce report to impose Commerce's recommendation on trade restrictions or craft a different set of tariff or trade restrictions. Then the President has 15 days to implement any trade actions and 30 days to submit a report to Congress explaining the President's action or inaction.

U.S.-Japan Trade Developments

- Rep. Ron Kind (D-WI) confirmed the paucity of dialogue or action on a potential phase two U.S. – Japan trade agreement. Rep. Kind said USTR has not provided the House Ways and Means Committee members significant "follow-up" information about a potential deal and noted that earlier in the year Amb. Lighthizer told lawmakers initiation of phase-two negotiations had been delayed by COVID-19 and that the administration hoped to start those talks in a "few months." "The administration promised to go back to Japan for things that were left out such as dairy," Kind said. "There has been very little, if any, follow-up in that regard, which has been extremely disappointing to my farmers here in Wisconsin."

Representative Ron Kind, (D-WI)

- Potential phase two trade talks with Japan appear beholden to the incoming Biden administration priorities and both countries efforts to restraint the global pandemic's economic impact. Notably, 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

- The EU has signaled it will require binding environmental commitments to any future trade deals. The push to use trade agreements as a tool to enforce the Paris climate commitments arise from momentum from the European Commission, Parliament and Council to and increasing support from major EU countries such as France, the Netherlands, and Germany. EU Trade Commissioner Valdis Dombrovskis said he was "willing to explore" the idea of "conditioning tariffs on certain sustainability outcomes."
- EU frustrations with U.S. trade policy have continued to mount over lobsters, civil aircraft disputes and a potential U.S. complaint at the WTO regarding the EU's farm to fork policy. Bernd Lange, chair of European Parliament's International Trade Committee, recently urged the EU to reconsider the lobster deal with the U.S. which cut tariffs on U.S. lobsters. Frustrated with the recent actions by the U.S. to increase aluminum import duties, which included the EU, and the lack of efforts to lower burgeoning transatlantic trade tensions, Lange sees, "no alternative to make clear that we are unwilling to accept these unilateral measures coming from the United States." In August, the EU agreed to remove tariffs on U.S. lobsters if the U.S. removed 50 percent of tariffs on EU goods up to an equal amount. The deal sought to act as a stepping-stone for trade war de-escalation.

Civil Aircraft Disputes

- The EU confirmed Monday imposition of tariffs of 15% on U.S. aircraft and 25% on agricultural goods, totaling $4 billion under the WTO ruling on U.S. subsidies for Boeing civil aircraft **[NEW – see list]**. "We can confirm that the European Union will later today exercise our rights," Commission Vice President Valdis Dombrovskis said after a virtual meeting of EU trade ministers. Dombrovskis insisted the EU was merely aiming level the playing field and not escalating the trade tensions, as the U.S. has already imposed tariffs of 15% on EU aircraft and 25% on EU agricultural goods following the WTO ruling last year on illegal launch aid for Airbus. Dombrovskis said that "both in tariff rates applied and the composition" of products, the EU would "mirror the U.S. approach … Apart of aircraft tariffs there are also going to be tariffs on agricultural, processed agricultural and industrial goods." Mr. Dombrovskis continued, "I want to underline that we are not escalating anything, we are exercising our rights as awarded by the WTO… I would like to remind that U.S. is applying their tariffs already for a year… we are ready to withdraw or suspend our tariffs any time when the U.S. is ready to do so on their side, whether it be under the current or next administration."

Valdis Dombrovskis, EC Vice President

- The announcement by the EU came after a strategic discussion Monday among EU trade ministers on EU-U.S. relations. The *Financial Times* has reported the EU's retaliation list covers a wide range of U.S. products, including aircraft, tractors and diggers, gym equipment, casino tables and groundnuts, as well as grapefruit juice and orange juice. The previously published list covers many agriculture products including, nuts, grapes, distilled spirits, and seafood products.
- Last month, the WTO granted the EU the green light to move froward with $4 billion in retaliatory tariffs against U.S. products under the civil aircraft dispute regarding Boeing. The U.S. countered immediately stating the EU has no legal basis to impose aircraft tariffs in in conjunction with recent WTO's arbitrator's announced award level of $4 billion on U.S. products.

French Digital Services Tax

- The EU member governments may not impose an EU tax on technology companies after OECD talks have failed to agree on a deal before the end of 2020. *Politico* reports that Germany has put forward text of formal "Council conclusion" that would serve as notice that the EU will not advance its own digital tax legislation early next year. EU member states remained divided as northern countries support the delay while France seeks allies in pursuing stronger language in future conclusions.
- Negotiations at the OECD on a digital services tax agreement will likely carry into June 2021. The OECD published updated proposals for the two areas of its digital tax which will be provided to ministers at the G-20 meeting in October before being released to the public, sometime before January. In total, the two pillars are expected to generate $100 billion in tax revenues. 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. 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

- On Nov. 4, Brazil's agriculture ministry implemented a new regulation facilitating imports of GMO soybeans from the U.S., according to *Reuters*. In a statement, Brazil recognizes "the equivalence of genetically modified events approved in the United States and in Brazil." This regulation follows a lack of supply of soybeans in the Brazilian market that had led to increasing prices for animal feed and contributed to food price inflation. To mitigate the rising prices, in October, Brazil temporarily suspended import tariffs on corn, soybeans, soymeal, and soy oil from countries outside the Mercosur trade bloc. Brazil plans to import 1 million tons of soybeans this year, according to a forecast by Brazil's Above, the highest volume since 2008.
- Prospects for a broad Brazil FTA were summarily dismissed by Amb. Lighthizer shortly after the mini-trade was announced with Brazil. Lighthizer stated, "The reality is there is no support for an FTA in the Democratic Party. I would say an FTA right now is probably not in the cards." Lighthizer also stated there are negotiations with Brazil over ethanol and sugar market access, among other agricultural concerns. This week, House Ways and Means Chair Richard Neal (D-Mass.) delineated Democrats' concerns saying the Trump administration rewarded "a Brazilian administration that lacks respect for basic human rights, the environment, and its own workers."
- The U.S. and Brazil have reached an agreement on a mini trade deal. The agreement or U.S.-Brazil trade protocols includes trade facilitation, regulatory practices, and anti-corruption measures. Brazilian President Bolsonaro announced on Monday, "This triple package will be able to slash red tape and bring about even more growth to our bilateral trade with beneficial effects to the flow of investments as well." Observers cautioned that in spite of both sides committing to continue negotiations on a comprehensive bilateral trade agreement, U.S. House Democrats will likely oppose such a deal over concerns of Bolsonaro's record of abusing civil, human, environment, and labor rights.

U.S. – Kenya Trade Developments

- The office of USTR stated the second round of U.S and Kenya trade negotiations will conclude on Nov. 12. *Inside Trade* reported that according to the American Chamber of Commerce in Kenya, Nairobi has prepared text for several chapters so far including on legal and transparency issues; market access for goods; sanitary and phytosanitary measures; textiles and apparel; customs and trade facilitation; technical barriers to trade; services and investment; digital trade; intellectual property; small and medium-sized enterprises; government procurement; state-owned enterprises; and labor and environment. USTR Robert Lighthizer is aiming to negotiate a comprehensive deal with Kenya prior to TPA's expiration.

Section 201 Investigations

Seasonal Produce

- USTR requested the USITC to commence separate "monitoring" investigations on imports of strawberries and bell peppers, following through on requests by Florida growers last month. In a letter to the USITC dated Nov. 3rd, Amb. Lighthizer requested "the collection and analysis of information that would expedite investigations" into fresh or chilled strawberries and bell peppers. The information could serve as a basis for launching section 201 global safeguard investigations in the near future. The USTR's Seasonal Produce Plan outlined the monitoring investigation stating, "USTR will work with domestic producers to commence an investigation by the International Trade Commission to monitor and investigate imports of strawberries and bell peppers, which could enable an expedited Section 201 global safeguard investigation later this year."
- USTR action stems from Oct. 6th letters from the Florida strawberry and bell pepper groups to Amb. Robert Lighthizer requesting USTR to initiate import monitoring investigations as part of the seasonal produce action plan. The Florida Fruit and Vegetable Association (FFVA), Florida Strawberry Growers Association (FSGA), and Florida Farm Bureau requested USTR to formally request the USITC "monitor and investigate imports of strawberries, which could enable an expedited Section 201 global safeguard investigation later this year." The FFVA, Florida Farm Bureau sent a similar letter regarding bell peppers requesting a similar investigation.
- The section 201 blueberry investigation by the USITC is underway and key milestone dates include the deadline for an injury decision on Feb. 11, 2021 and USITC injury report due to the President by March 29, 2021. Key dates in the section 201 investigative process are noted in a USITC fact sheet:
  - **September 29, 2020:** USITC initiated Section 201 blueberry investigation.
  - **January 12, 2021:** Hearing on injury
  - **February 11, 2021:** Vote on injury (Statute requires vote by 180 days (Feb. 26, 2020), but USITC invoked 15-day extension under "extraordinarily complicated" provision).
  - **February 25, 2021:** Hearing on remedy (if affirmative injury vote)
  - **March 19, 2021:** Vote on remedy recommendation (if affirmative injury vote)
  - **March 29, 2021:** USITC report and recommendation to the President (if affirmative injury vote).
  - **May 28, 2021:** Presidential announcement on action – (e.g. adopt USITC remedy recommendation, develop different remedy, decline to take any remedy action).

U.S. – India Trade Developments

- No significant updates on a potential U.S. – India limited trade deal. As reported earlier, a 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

- Hong Kong has officially filed a challenge at the WTO against the U.S action to label products from Hong Kong as "made in China" after making a request for consultations on Oct. 30. The requirement for compliance for the "made in China" rule has been extended to Nov. 10. Currently, Hong Kong is an independent member of the WTO even after China imposed the new national security law. According to a report by *Politico*, Hong Kong shipments to the U.S. only account for 0.1% of total exports. Hong Kong Secretary Edward Yau said, "The U.S. is unilaterally imposing this new requirement without any valid reason and with blatant violation of the WTO rules on Hong Kong, which is why we have to fight against the U.S. under the WTO Dispute Settlement Mechanism." The U.S. now has 10 days to respond to the report. (See USDA GAIN report for further details)

- Colombian Ambassador Santiago Wills, the chair of the WTO negotiations on fisheries subsidies, introduced a consolidated text reflecting progress. However, the members remain opposed on key areas, particularly special and differential treatment. Ambassador Wills stated, "I am confident that all delegations will find things to like in the changes that I am proposing, and that this revision thus will represent a step forward in the evolution of our work toward that full consensus." The goal remains "to try to find language that ultimately all delegations will be able to live with, even if it does not reflect 100 percent of anyone's preferences."
- As previously reported, according to a recent report, the U.S. agricultural domestic support for 2019 and 2020 is likely to surpass WTO limits by $10 billion. The USDA claims the farm support was WTO compliant. A USDA spokesperson stated, "USDA was mindful of WTO obligations when designing these programs and USDA remains confident that we will meet our commitments." Within the WTO commitments, the U.S. is allowed to spend $19.1 billion on agricultural support annually. If the support exceeds WTO commitments, other members can bring a challenge to the WTO.
- USDA defended the farm aid provided under the Trump Administration saying it was "confident" the programs were WTO-compliant but noted that the agency had not yet crunched the numbers because the U.S. won't be notifying its 2019 and 2020 support "for another year or two."
- A recent analysis by Congressional Research Service (CRS) concluded the U.S. may exceed WTO allowable agriculture subsidy limits depending on how the U.S. allocates outlays. The CRS report states: "If USDA follows historical precedent in how it has categorized and notified U.S. domestic support outlays in recent years, then CRS analysis suggests that the United States will be in compliance with WTO spending limits during 2018, but could exceed the annual U.S. spending limit of $19.1 billion in both 2019 and 2020."

WTO Leadership

- The WTO General Council chair, David Walker, said this week's meeting is delayed amid new pandemic-related restrictions and an ongoing impasse among the membership on the Director-General selection. Ambassador David Walker cited "the health situation and current events" in announcing he was postponing the meeting "until further notice." "It has come to my attention that for reasons including the health situation and current events, delegations will not be in a position to take a formal decision on 9 November," Walker said in his communication to members on Friday. "I am therefore postponing this meeting until further notice during which period I will continue to undertake consultations with delegations." Swiss authorities in Geneva, Switzerland, announced strict new lockdown measures amid a surge in infections and hospitalizations in the Swiss city. From Nov. 2 until Nov. 29, the area will prohibit public and private events of more than five people.
- The postponement indefinitely extends resolution to the DG selection and likely leading candidate Ngozi Okonjo-Iweala's recommendation to achieve consensus. The impasse was created recently when the U.S. staunchly supported the other DG finalist, Korean Trade Minister Yoo Myung-hee, who has not been withdrawn from the race by South Korea, and indicated it would block the appointment of Okonjo-Iweala. USTR supported its position in the following statement:

  > "The United States supports the selection of Korean Trade Minister Yoo Myung-hee as the next WTO Director-General. Minister Yoo is a bona fide trade expert who has distinguished herself during a 25-year career as a successful trade negotiator and trade policy maker. She has all the skills necessary to be an effective leader of the organization."
  >
  > "This is a very difficult time for the WTO and international trade. There have been no multilateral tariff negotiations in 25 years, the dispute settlement system has gotten out of control, and too

few members fulfill basic transparency obligations. The WTO is badly in need of major reform. It must be led by someone with real, hands-on experience in the field."

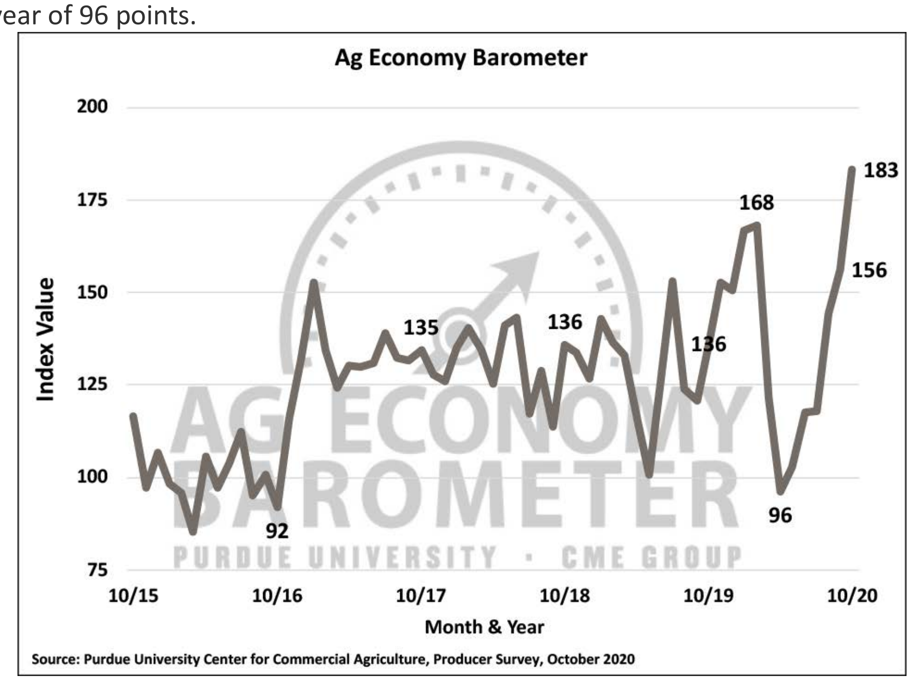
- As reported earlier, the U.S. objection surprised some WTO officials and trade experts. Bill Reinsch, a senior trade adviser at the Center for Strategic and International Studies said, "I have to say I'm surprised and disappointed in the U.S. reaction." "I had hoped [U.S. Trade Representative Robert] Lighthizer would have more respect for the institution than that." Wendy Cutler, a former senior U.S. trade official lamented the development saying, "Regrettably, every decision before the WTO membership these days is not easy." "There were two well-qualified, impressive women for consideration and the WTO could not have gone wrong with either one," Cutler said. In contrast, Senator Chuck Grassley expressed full support for the U.S. decision to back the South Korean finalist, Yoo Myung-hee, as the most qualified candidate to lead WTO reform. "It's because of her background and experience compared to the Nigerian candidate," Grassley said.

WTO Reform

- With the stalled WTO DG selection, several reform initiatives likely remain on hold including the U.S. proposal for WTO reform addressing special and differential treatment. The proposal would identify four categories of developed members which would include China, India and several Latin American who are currently defined as developing. However, the proposal is quite divisive, and consensus remains unlikely. While European Union, Australia, Japan and Brazil support the reform of special and differential treatment in the WTO; India, South Africa, China and the LDC group all vehemently oppose it. This week, U.S. Ambassador to the WTO Dennis Shea addressed WTO reform stating, "The institutional paralysis of the negotiating function should be at the center of our reform efforts. It is clear to us that piecemeal reforms will not suffice to pull the WTO from its current rut. Consequential reform of the negotiating function needs to begin with a shared commitment to the foundational principles of the WTO."

<u>Ag Economy Barometer</u>

- The Ag Economy Barometer continued to rise reaching the highest level the since survey began in 2015. Farmer sentiment reached a record high index of 183 in October, was up 27 points from September. The surging positive sentiment over the past several months was propelled by dissipating concerns over COVID-19's impact on farm, robust crop yields, increasing prices for in key commodities, government payment programs (e.g. CFAP 2)and optimism for higher farmland values and cash rental rates for farmland in 2021. The barometer index has nearly doubled, increasing 87 points since the COVID-19 low earlier this year of 96 points.



China Phase One Tracker – Select Agriculture Products