TRADE UPDATE
Food & Agriculture

February 23, 2021

Provided by CRA

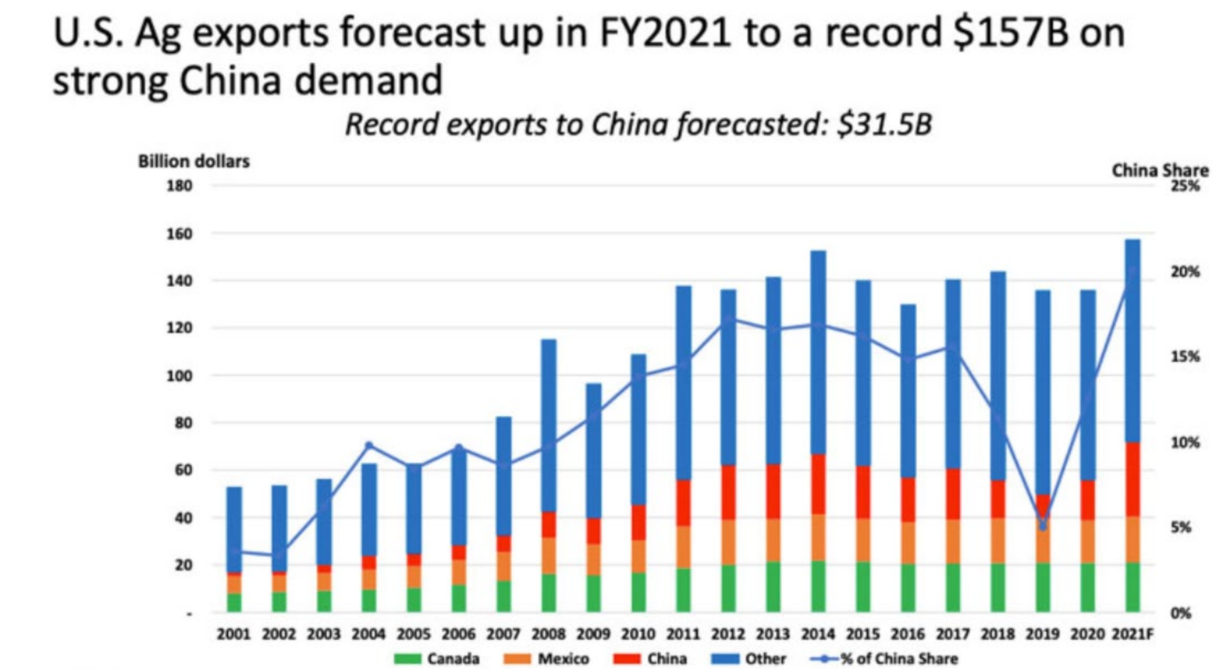
HIGHLIGHTS

- **U.S. – China:** USDA projects U.S. farm exports will reach a record $157 billion for fiscal 2021, an increase of $21 billion over 2020, as the global economy recovers, and China accelerates already strong demand for U.S. corn, soybeans and meat.
- **U.S. – U.K.:** The. U.S. and U.K. have made progress toward converging their policy priorities according to British Prime Minister Johnson.
- **U.S. – EU:** Europe's trade chief Valdis Dombrovskis expressed concern over the Biden Administration's "Buy American" policy and warned the EU is closely monitoring whether the policy will violate international commitments.
- **WTO:** The EU acknowledged the legitimacy of certain U.S. concerns with the WTO's Appellate Body (AB), suggesting a thaw in diplomatic tension regarding the AB and other WTO reform issues.

Quote: "The time to go big is now." (*Treasury Secretary Yellen at the G7 meeting calling for continued fiscal support)*

China Trade

- Treasury Secretary Yellen affirmed that the U.S. would keep tariffs on China stating, "For the moment, we have kept the tariffs in place that were put in by the Trump administration ... and we'll evaluate going forward what we think is appropriate," adding that the U.S. expects China to adhere to its trade commitments. Yet Yellen did cite concerns regarding China's trade actions, forced technology transfers, and subsidies to high-technology industries and added, "We want to make sure that we do address and hold China to its international obligations in these areas."
- Former U.S. Trade Representative Robert Lighthizer echoed similar sentiments, saying that he sees, "no reason in the world" for President Biden to change the Trump administration's trade approach on China. On Biden's trade nominees, Lighthizer said, "If they're smart, and I think they are smart, I think they'll modify it -- they'll make it look a little bit like his policy, which is what politicians do, but the essence of it are rules that make a fairer relationship. I think the Biden administration is going to follow through on this."
- USDA projects U.S. farm exports will reach a record $157 billion for fiscal 2021, an increase of $21 billion over 2020, as the global economy recovers, and China accelerates already strong demand for U.S. corn, soybeans and meat. Exports to China are projected to hit a record $31.5 billion in FY21, and the Chinese are expected to exceed their tariff rate quota for corn of 283 million bushels, or 7.2 million metric tons, for the second year in a row, according to USDA Chief Economist Seth Meyer. USDA's latest Outlook for U.S. Agricultural Trade reports suggest China will remain the largest U.S. agricultural market this year, followed by Canada and Mexico. Other projections include:
  - Overall U.S. agriculture exports are projected at $157 billion, up 3.3% from the previous forecast, driven by higher oilseed and grain export forecasts.
  - Soybean exports were raised 4.2% to a record $27.4 billion resulting from strong demand from China and higher prices.



Data: USDA

- As noted earlier, the U.S. Court of International Trade said that the Biden administration has until March 12 to provide a "master answer" comprehensive response to over 3,500 lawsuits filed against the Section 301 tariffs on goods from China. The lawsuits are filed against $320 billion worth of tariffs on Chinese goods imposed by the Trump administration.

Phase One Agreement

- According to the most recent USDA trade data, the U.S. exported a record-setting $26.4 billion worth of agricultural goods to China in calendar year 2020. Surges in U.S. corn, soybeans, and beef imports to China contributed to the record levels. Total U.S. beef exports in 2020 surpassed 2019 exports by 231% while U.S. corn exports in 2020 were valued at $1.2 billion, a 2,000% increase from calendar 2019. Even with the record in agriculture imports, the total is still predicted to fall below China's Phase One commitment levels.

<u>U.S. - U.K. Trade</u>

- The. U.S. and U.K. have made progress toward converging their policy priorities according to British Prime Minister Johnson. "There's been some important developments in the way the U.K.-U.S. thinking has been coming together in the last few weeks, and particularly on issues like climate change, on NATO, on Iran, but above all, on the ways that the U.S. and the U.K. are going to work together to deal with the environmental challenge that faces our planet," Johnson said. Speaking on issues like climate change, Johnson said "I think some of the stuff we're now hearing from the new American administration and from the new White House is incredibly encouraging."
- Former U.S. Trade Representative Robert Zoellick recommended a U.S. "strategy for post-Brexit Britain" including negotiating a U.S.-U.K. free trade agreement. "…I think we need something different. We need a supportive embrace that also allows the UK the flexibility to develop roles within regional and global systems," said Zoellick. "So, it would not help the UK if it just was seen as a strategic appendage of the United States. You need something a little bit more complex in its relationship. And oddly – maybe I'm missing something – but I see no discussion of this strategy in the U.S." Zoellick continued, "Unfortunately, this is where the U.S. is behind the curve. If we don't engage Britain in a serious and modern trade

Robert Zoellick, Former USTR & World Bank President agreement – and, right now, odds are we won't – we'll miss this opportunity, and we'll miss a historic opportunity to help Britain become an allied partner for the next 30 years."

- As noted previously, U.K. officials assert a "good amount of progress" on the trade deal was made with the Trump Administration, but the U.K. is open to the possibility that the Biden Administration may want changes or additions, according to Amb. Pierce. Pierce acknowledged bilateral negotiations are on hold at least until the new USTR is in place. She also emphasized the U.K. is eager to resolve the bilateral conflicts over U.S. Section 232 tariffs imposed on steel and aluminum and the long-running WTO dispute over aircraft subsidies.
- Beyond the uncertainty of timing for the next formal round of bilateral talks for a U.S. – U.K. trade deal, the ticking clock on the expiration of Trade Promotion Authority (TPA), which expires in June 2021, could further complicate a U.S.-U.K. agreement. Providing for an up or down vote with strict Congressional timelines for action, TPA historically has been key to timely Congressional consideration of trade agreements. Under TPA or previously known as "fast track" authority, USTR would need to submit the signed U.S-U.K. trade agreement to Congress by April 2021 to receive consideration under TPA.

Trade Promotion Authority

- Renewal of Trade Promotion Authority (TPA) in 2021 is garnering increasing attention as President Biden fills key trade positions and the Administration's domestic and trade polices become clearer. New trade agreements appear to fall well below the Administration's top domestic policy priorities of beating COVID-19, rebuilding the domestic economy, and tackling climate change. The implications of a potential lapse of TPA this summer remains unclear for the U.K. and Kenyan trade talks. Several trade commentors have pointed to a divided Congress and other domestic priorities as impediments to TPA renewal in 2021.
- Supporters of the proposed U.S.- U.K. free trade agreement, which remains under negotiation, are hoping for TPA renewal to ensure a clear path for Congressional action once an agreement is signed. But TPA renewal may prove a political challenge, particularly in the first year of a new Biden Administration. According to several sources, there is a protectionist mood in Congress and the tough Presidential election suggests it is unlikely that Democrats and Republicans will be able to agree on TPA renewal. Several trade experts note Congressional lawmakers were unhappy with President Trump's decision to opt for "mini-deals" with China and Japan that did not require TPA and so were conducted without Congressional input. This viewpoint may compel a fresh look at the role and details of TPA. Further, President Biden has signaled his intent to pause new trade agreements, though it remains unclear what that approach means for the two negotiations underway with the U.K. and Kenya.

USMCA

- Canada's Parliamentarians voted to create a special committee focused on issues in Canada-U.S. relations and to investigate economic issues like how President Joe Biden's Buy America policies and rejection of the Keystone XL pipeline could negatively affect the Canadian economy. The committee is a conservative effort and is designed to "get answers for Canadians about the Trudeau Liberals' failures to address" these issues. Conservative Leader Erin O'Toole said, "The Canada-U.S. committee will get answers for Canadians," and "help advance one of most important pillars of our recovery, the economic relationship between Canada and the United States."

Erin O'Toole, Canadian Conservative Party

Section 232 Investigations

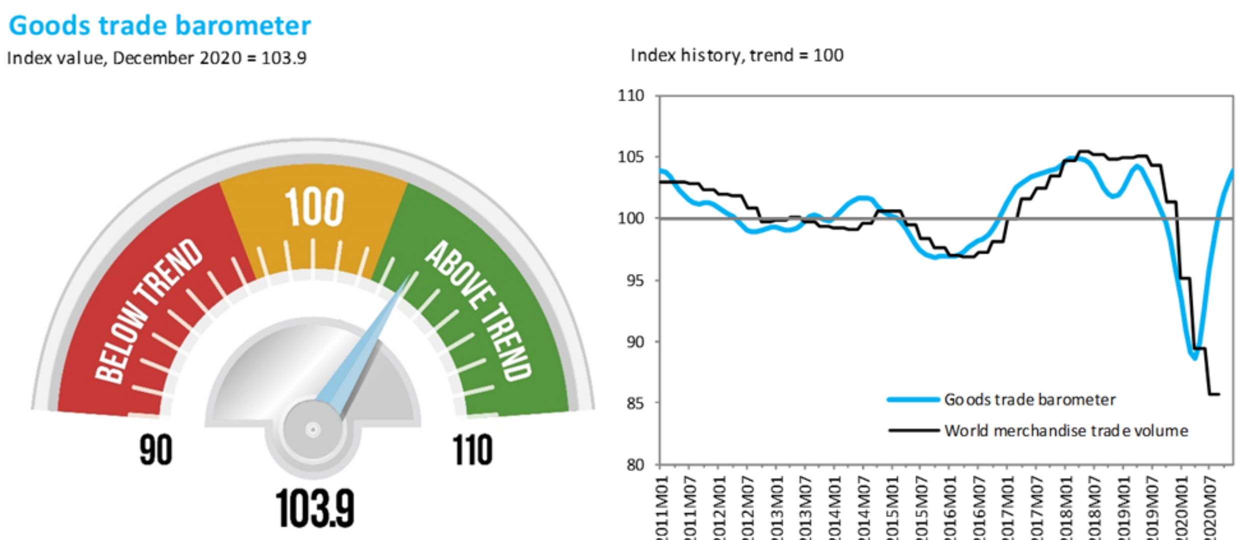
- Last week, the U.S. Court of International Trade (CIT) denied a broad challenge by Universal Steel Products and several other importers regarding former President Trumps Section 232 tariffs on steel imports. Universal Steel Products had challenged both the report by the U.S. Department of Commerce

(“Commerce”) supporting the Section 232 steel tariffs (“Steel Report”) and President Trump’s executive order, Proclamation 9705, and its subsequent modifications (“Proclamations”), claiming that they violated various Section 232 procedural requirements and the Administrative Procedure Act (APA).

- Previously, members of the Congressional Steel Caucus urged the White House to leave in place the Section 232 tariffs on imports of steel imposed by the Trump Administration. In a letter signed by 51 lawmakers sent to President Biden, the group requested “that the existing tariffs and quotas remain in place to ensure that imports do not take a significant share of the US market as the nation begins its economic recovery.” “As the Biden-Harris Administration review the existing tariffs and quotas in place on certain steel products, we strongly encourage the continuation of a comprehensive program,” the letter stated. “Steel is a critical component of the Build Back Better recovery plan and through continuation of the tariffs and quotas we can ensure that these companies and their workers can contribute to a robust economic recovery in our nation.”
- In 2018, President Trump imposed 25 percent tariffs and 10 percent tariffs on steel and aluminum imports, respectively, under national security concerns outlined in Section 232 of the Trade Expansion Act of 1962. Several steel and aluminum consuming U.S. industry groups (e.g., Business Roundtable and American Farm Bureau) earlier urged the incoming Biden Administration to remove China section 301 and section 232 tariffs, in part, to support national economic recovery in the wake of the global pandemic. On the international front, the EU, China and other countries challenged the U.S. tariff action at the WTO. A WTO ruling on the case is expected in 2021.

<u>COVID-19 Developments</u>

- The WTO’s recently released Goods Trade Barometer signals a strong trade rebound but the momentum may be short lived. The barometer's current reading of 103.9 is above both the baseline value of 100 for the index and the previous reading of 100.7 from last November, marking an improvement in merchandise trade since it dropped sharply in the first half of last year.



- President Biden plans to raise the need for updated global trade rules to tackle the challenges posed by China in a virtual G7 meeting during June 11-13. Boris Johnson, U.K. Prime Minister will lead the G7 leaders in their first meeting since April 2020 as part of this year’s U.K. G7 presidency. Biden also plans to discuss the need for economic recovery, climate change and ongoing efforts to combat the COVID-19 pandemic, according to a statement issued from the White House. “As we build back better, we must ensure that the recovery is inclusive and benefits all workers, including women and members of historically disadvantaged groups, and all parts of our country.” Biden intends to also raise the “need to make investments to strengthen our collective competitiveness and the importance of updating global rules to tackle economic challenges such as those posed by China," according to the statement. "President Biden will also discuss the global economic recovery, including the importance of all industrialized countries maintaining economic support for the recovery and collective measures to build back better," the statement said.

U.S. – EU Trade

- Ahead of the G7 meeting this week, French President Macron said that the failure of global distribution of vaccines underline the need for more international cooperation on a wide range of issues. The *Financial Times* reports that Macron claimed, "The enemy of multilateralism as we speak, now that we have American re-engagement, is slowness and ineffectiveness." "I am a defender of European sovereignty, of strategic autonomy, not because I'm against NATO or because I doubt our American friends, but because I am lucid on the state of the world, because I think we need a fair sharing of the burden and Europe cannot delegate its protection and the protection of its neighbourhood to the USA and so we have to do it together," Macron added.
- In a different tone, Europe's trade chief Valdis Dombrovskis warned the Biden Administration over the "Buy American" policy and said the EU would closely monitor whether preferential treatment for U.S. contractors on public projects contravened international commitments. "We will be assessing to which extent the U.S. complies with its [World Trade Organization] commitments under the global procurement agreement," Dombrovskis said.

Digital Services Tax

- No significant updates since House Ways and Means Chair Richard Neal (D-Mass.) said that there are benefits to advancing OECD talks on a digital services tax. "I still think America needs to lead in that role," Neal said. He also called the actions by France and the U.K. to implement a digital tax on their won, "ill-considered and unwarranted."
- Earlier Treasury Secretary Janet Yellen and French Economy Minister Bruno Le Maire agreed on the need for a multilateral digital tax solution through OECD negotiations. The French Economy Ministry said in a statement that Le Maire welcomed Yellen's "commitment to active U.S. participation in the ongoing OECD discussions on international taxation to forge a timely international accord" and that both leaders "agreed on the need to find multilateral solutions to many of the issues facing the global economy, including addressing the tax challenges of efficiently and equitably taxing the income of multinational firms."
- Late last year USTR declined to impose the 25% tariffs on French products, which would be valued at $1.3 billion for France's digital services tax. Former USTR Robert Lighthizer said he did not impose the tariffs citing "the ongoing investigation of similar DSTs adopted or under consideration in 10 other jurisdictions." USTR's press release on the issue provided no timeframe for further action.

Civil Aircraft Disputes

- Germany, Spain and France are in discussions with EU officials over whether to forgo their traditional subsidies to Airbus in attempt to end the transatlantic civil aircraft dispute. *POLITICO Pro* reports that EU leadership in Brussels prefers to remove the Airbus subsidies known as "launch aid" and instead shift the EU model of funding innovation in the aviation sector towards military spending. Officials in Germany, Spain and France said they were negotiating with the EU Commission on how to best restructure the aid and said that the EU was preparing to make an offer to the Biden administration.
- The development reflects ongoing EU efforts to urge a reset on the long-running trans-Atlantic dispute over aircraft subsidies, aiming for a resolution in the first six months of the Biden Administration. European Director-General for Trade Sabine Weyand previously said, "Our objective here is to come to a situation where both sides hopefully would agree to suspend the tariffs, which have caught up a lot of people on both sides of the Atlantic that have nothing to do with the dispute … and create space for this negotiation."

- On November 4, 2020, the EU imposed 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. USTR Robert Lighthizer previously argued that the EU tariffs were no longer valid as regulations in Washington State regarding Boeing business activities now comport with the WTO rulings. In October 2020, 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.

Section 201 Investigations

Seasonal Produce

- In response to the termination of the blueberry safeguard investigation, the Blueberry Coalition for Progress and Health, a group supporting blueberry imports, stated, "The Coalition presented a straightforward evidence-based case before the ITC and proved that imported blueberries are not a substantial cause of serious injury to the domestic industry." "In fact, the U.S. blueberry industry is healthy and thriving. Together with imports, the U.S. industry is working hard to keep up with the year-round and growing marketplace demand for this healthy and nutritious fruit." The group noted U.S. consumption of blueberries has experienced a more than a 300% increase in per capita consumption since 2005 and is now at a record high of 1.79 pounds per person.
- In contrast, Florida Agriculture Commissioner Nikki Fried vowed to continue fighting for relief for U.S. growers, noting the ITC determination was disappointing. "This shows the need for greater reforms as Florida's congressional delegation has proposed that would provide access to effective trade remedies for all seasonal producers – legislation which will be again introduced," Fried said in a statement. "The data proves that Florida's seasonal growers have suffered hundreds of millions of dollars in economic injury from foreign blueberry imports. With Florida producing farm-fresh seasonal and perishable commodities for 150 million Americans, we will continue fighting to prevent their being further seriously harmed by unfair foreign trade practices."
- On February 11th, The U.S. ITC rendered a unanimous vote finding no "serious injury" terminating the Section 201 global safeguard investigation of U.S. blueberry imports. In a statement, the USITC said it "determined that fresh, chilled, or frozen blueberries are not being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat of serious injury, to the domestic industry producing an article like or directly competitive with the imported article." The statement noted that all five Commissioners voted negative, and that, "As a result of today's vote, the investigation will end, and the Commission will not recommend a remedy to the President."
- With the termination of the blueberry global safeguard investigation, four other related seasonal produce "monitoring" investigations continue at the USITC. The investigations cover imports of strawberries, bell peppers, cucumbers and squash, respectively, and stem from requests from USTR as part of the Seasonal Produce Plan outlined by the prior Administration. The Plan noted that, "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 investigations."

Transition 2020

- According to reports, the Senate will vote on the conformation of Tom Vilsack, President Biden's nominee for Agriculture secretary, on Tuesday, February 23. Vilsack's confirmation is expected to clear without incident and would place him in office two months earlier than his predecessor, Sonny Perdue, who was confirmed on April 24, 2017.
- The Senate Finance Committee has scheduled a confirmation hearing for Katherine Tai, President Biden's nominee to serve as U.S. Trade Representative for this Thursday, 25th at 10:00 am. Some sources

indicated President Biden is striving to have Tai in place by March 1. Under such an ambitious timeline, Tai's confirmation would require a swift committee vote and confirmation by the full Senate this week. Given the strong support Tai has from both Democratic and Republican lawmakers, in addition to several industry and labor groups, she is expected to be easily confirmed.

- As the Office of the U.S. Trade Representative awaits Katherine Tai's Senate confirmation, the agency said its fully supportive of making climate change a top priority in the Biden Administration. In a tweet last Friday, the agency said on Twitter, "Today the United States formally rejoins the Paris Climate Agreement." "At USTR, we're committed to making the fight against Climate Change our priority." The agency also employed social media last week to echo President Biden's multilateral approach to trade, the global pandemic, and foreign policy, stating, "We echo @POTUS' message: America is back, and @USTradeRep will work closely with our partners and allies across the globe."

U.S-India

- Indian Commerce Minister Piyush Goyal said that he will engage with the incoming U.S. Trade Representative officials on a U.S.-India trade deal. "I will also engage with the new USTR to try and put together a fresh package. I think the old one is now off the table," Goyal said. "One specific ask of the U.S. [is] to increase the FDI limit in insurance, has been accepted," Goyal said. Goyal hopes to start fresh with a new U.S. administration after previously failing to reach a mini-trade package deal.

Piyush Goyal, India's Commerce Minister

WTO

- The U.S. is facing pressures to reverse its position and support a request by India and South Africa for a waiver of IP right protections for COVID-19 vaccines and treatments at the WTO. More than 200 international, regional and domestic non-governmental organizations from developing countries sent a letter to Biden urging support for the waiver. Rep. Jan Schakowsky (D-Ill.) said, "The fate of humanity right now, in many ways, is riding on this. With the variants that are developing, time is of the essence right now." "This waiver proposal is about justice, it's about saving lives," said Mustaqeem da Gama, a South African trade official at the WTO. "It's about enabling those that have the capacity to ramp up production, and to suspend certain intellectual property rights for a period of time, until we're able to get this particular virus under control," Mustaqeem da Gama added. Alongside the U.S., the EU, Canada, the U.K., Switzerland, and Japan also oppose the waiver.
- As reported earlier, the WTO has delayed a decision on Trump's steel tariff case that was brought on by several countries including the EU and China. "The Panel now expects to issue its final report to the parties no earlier than the second half of 2021," the WTO judges said a notice. The judges blamed the delay on the pandemic.

WTO Leadership

- On March 1, Ngozi Okonjo-Iweala will take office as Director General (DG) of the WTO and select her four deputies on the basis of members' recommendations. Her term will last until August 31, 2025, which is longer than a typical tenure as WTO DG. The WTO confirmed Nigeria's Ngozi Okonjo-Iweala as DG on Feb 15th. Dr. Okonjo-Iweala is the first woman and first African to lead the global trade institution.
- In her first statement as DG, Dr. Okonjo-Iweala said, "You can count on me to be proactive, to work hard, to be balanced, fair, professional, and objective, so as to continuously earn and sustain your trust. That way, together, we can restore and rebrand the WTO as a key pillar of global economic governance, a force for a strong, transparent, and fair multilateral trading system, and an instrument for inclusive economic growth and sustainable development."
- The U.S. welcomed the confirmation as Charge d'Affaires of the U.S. delegation in Geneva David Bisbee said the U.S. "warmly welcome[s] and congratulate[s]" Okonjo-Iweala on becoming director-general, on Monday. "Dr. Okonjo-Iweala has promised that under her leadership it will not be business as usual for

the WTO, and we are excited and confident that she has the skills necessary to make good on this promise." Bisbee also praised her "wealth of knowledge and experience in critical pillars of economics, trade, and diplomacy" and argued that WTO reform "will require a masterful blend of all these skills to navigate 164 Members to consensus."

WTO Reform

- The EU has placed the WTO at the center of its new greener trade strategy. "A key driver of the crisis is that China's accession to the WTO has not led to its transformation into a market economy," the European Commission said. "The WTO has not been able to negotiate new rules to tackle this." The Commission seeks to incorporate green action into trade deals and also wants to work towards an increasingly environmentally conscious WTO. Specific reforms include trade liberalization in green goods and services, or agreements to reduce fossil fuel subsidies.
- In a recent communication the EU acknowledged the legitimacy of certain U.S. concerns with the WTO's Appellate Body (AB) and signaling a thaw in diplomatic tensions regarding the WTO's dispute settlement process as well as other WTO reform priorities like special and differential treatment. In the document addressed to the European Parliament - "Trade Policy Review – An Open, Sustainable and Assertive Trade Policy", the EU cites WTO reform as one of the "[s]ix areas that are critical to achieving the EU's objectives in the medium term," although some of the other six areas – like the digital economy and green transition – involve multilateral work at the WTO. The EU also notes the need for bilateral cooperation, putting the onus on the Biden Administration to make the next move. The EU provided specific details on its WTO reform proposals, most notably, the EU argues that WTO reform is only possible if the U.S. and EU are moving in the same direction. "[A]n essential building block for WTO reform is a high degree of convergence in the reform agenda between the United States and the EU," the document's annex reads. "Throughout history, EU-US cooperation has been the main driving force for progress achieved in GATT/WTO negotiations."