

TRADE UPDATE Food & Agriculture



Provided by CRA

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HIGHLIGHTS

- **U.S. – China:** Secretary of State Blinken laid out the Biden Administration’s national security strategy, calling the U.S.-China relationship the “biggest geopolitical test of the 21st century.”
- **U.S. – USMCA:** U.S. industry groups are putting pressure on the Biden Administration to take action on Canada’s dairy TRQs.
- **U.S. – EU:** U.S. and the EU concluded negotiations to adjust Brussels’ agricultural quotas, following the U.K.’s departure from the EU. EU members countries still must approve the deal.
- **WTO:** Senators Portman (R-OH) and Cardin (D-MD) introduced a resolution calling for WTO reforms and U.S. leadership at the WTO, while Vice President Kamala Harris discussed the impact of COVID-19 and climate change cooperation with Director General Ngozi Okonjo-Iweala.

Quote: “Maybe that gives us an opportunity to open the door with the understanding that any trade agreement must include open access to agricultural products in order for it to be successful.” (Agriculture Secretary Vilsack, on recent EU-US tariff suspension in the civil aircraft disputes)

China Trade

- Sen. Jim Risch (ID-R) and eight other colleagues are calling for a comprehensive strategy for U.S. competition against China. The Strengthening Trade, Regional Alliances, Technology, and Economic and Geopolitical Initiatives Concerning China Act (STRATEGIC Act) aims to:
 - tackle China’s economic practices that distort global markets and hurt U.S. businesses, especially IP theft and mass government subsidization and sponsorship of Chinese companies;
 - confront tech competition by increasing technology collaboration with allies and partners;
 - safeguard institutions from malign and undue PRC influence; and
 - strengthen U.S. posture in the Indo-Pacific to protect its interests, allies and partners.

The legislation was previously introduced in [July 2020](#) by Sen. Risch and other Republican Senators.

- Secretary of State Blinken laid out the Biden Administration’s national security strategy, particularly when



Anthony Blinken, Secretary of State

it comes to China. Blinken said, “China is the only country with the economic, diplomatic, military, and technological power to seriously challenge the stable and open international system — all the rules, values, and relationships that make the world work the way we want it to.” America must invest in its institutions because it faces its “biggest geopolitical test of the 21st century: our relationship with China,” and Blinken continued, “Our relationship with China will be competitive

- when it should be, collaborative when it can be, and adversarial when it must be. The common denominator is the need to engage China from a position of strength.”
- National security adviser Jake Sullivan said that the U.S. will not focus on tariffs, the Phase One Agreement, or export controls imposed by China in the first in-person meeting between the two countries on March 18. Sullivan said, “This is our effort to communicate clearly to the Chinese government how the United States intends to proceed at a strategic level, what we believe our fundamental interests and values are, and what our concerns with their activities are.” “I don’t expect that, for example, the phase one trade deal is going to be a major topic of conversation next week,” Sullivan continued.

- Regarding the upcoming U.S. meetings with China, House Ways and Means ranking member Kevin Brady is encouraging Biden’s team to push for “full compliance” with the Phase One trade deal and quickly “move on to serious negotiations about phase two.” Brady stated, “Phase two is about reaching agreement on a number of issues in the reduction of tariffs.” He continued, “I think that’s where I’m interested in going, I think many of our members of Congress are as well, but those tariffs won’t likely be reduced until we see more progress from China.”
- The Senate Finance Committee will hold a hearing on fighting forced labor on March 18th. The hearing will discuss “closing loopholes and improving customs enforcement to mandate clean supply chains” and protect workers. Finance Committee Chairman Ron Wyden (D-OR) previously said that the panel would “put a special focus on ending the import of goods produced with forced labor.”

Phase One Agreement

- Agriculture Secretary Vilsack recently commented on the Phase One Agreement acknowledging that the surge in agriculture purchases is not enough. “We have to put this in perspective,” Vilsack said, pointing to improvements in certain areas like sanitary and phytosanitary commitments but noting that China has not yet fully engaged “with a regulatory system that allows for more rapid adoption of some of the genetic ... technologies that are important” to U.S. farmers. “More work to be done” but “the jury’s still out,” he added.
- According to January 2021 Census data, U.S. agricultural exports to China totaled \$3.9 billion. This compares to \$4.3 billion in agriculture exports for the same month in year one (January 2020) of the Phased One agreement. Cumulative agriculture Phase One product exports to China totaled \$31.1B between January 2020 and January 2021.

U.S.-China Phase 1 Tracker for Agriculture Products

U.S. Exports to China, and Pace Needed to Meet Phase 1 Commitment in Year 2, Billion Dollars



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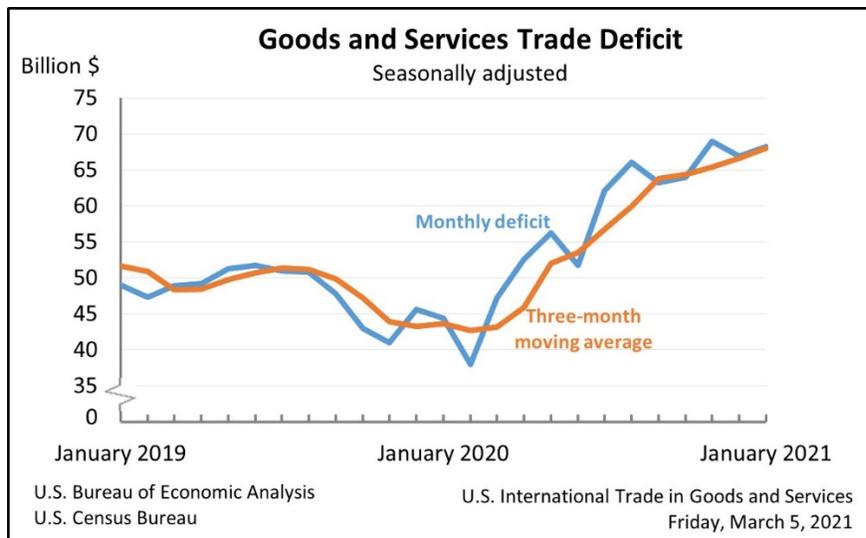
- Canada is planning to negotiate specific carve outs from Biden’s Buy American policy. Steve Verheul, Canada’s assistant deputy minister for trade policy and negotiations, said to Canadian lawmakers, “The prospects of us getting a complete exemption from the Buy America provisions is something that’s not likely to be politically possible in the U.S. When it comes to Buy American, we are looking at key sectors, we are looking at where our key objectives are.”
- U.S. industry groups are putting pressure on the Biden Administration to take action on Canada’s dairy TRQs. Krysta Harden, president and CEO of the U.S. Dairy Export Council, said, “Canada needs to stop manipulating its dairy (tariff rate quotas). Its actions have not only negatively impacted U.S. dairy farmers

and manufacturers, but also constrained many Canadian companies from being able to make use of these new TRQs to expand their supply options. USMCA lays out clear requirements on TRQ procedures and we urge the U.S. government to ensure full compliance by Canada with those commitments.” Jim Mulhern, National Milk Producers Federation’s (NMPF) president and CEO, also commented on the issue saying, “It’s time for Canada to stop playing games and address concerns related to the administration of its TRQs. Canada is failing to meet its trade obligations by manipulating import license procedures and minimizing the ability of U.S. dairy farmers to have full access to the benefits of USMCA. That needs to stop, and we look forward to working with the Biden administration to ensure it does.”

- As reported earlier, USDA Secretary Tom Vilsack said that among his top priorities is ensuring Canada’s and Mexico’s enforcement of USMCA. Speaking to the National Farmers Union, Vilsack said he is “talking about assuring that any trade agreements we have are enforced consistent with the letter and spirit of the trade agreements – and I’m thinking specifically about the USMCA and specifically about our friends in Canada.”
- Mexico’s new ambassador to the U.S., Esteban Moctezuma has been ratified by the Mexican Senate and has begun to address U.S.-Mexico issues. According to the Mexican embassy, Moctezuma will collaborate with Mexico’s Economy, Labor and Agriculture secretaries “to identify and promote trade and investment opportunities within” USMCA and “maintain a constructive dialogue with chambers of commerce and other relevant actors in the economic sphere.”

COVID-19 Developments

- The U.S. trade deficit in goods and services increased to \$68.2 billion in January from \$67.0 billion in December (revised), as imports increased more than exports. The latest report confirms the continued strong demand for imported consumer and technology goods as the nation moves to contain the COVID-19 virus, outpacing tepid demand in foreign markets for U.S. exports.



Section 232 Investigations

- While Biden Administration officials’ comments suggest the section 232 steel and aluminum tariffs will not disappear soon, the U.S. will face higher EU retaliatory tariffs in June, placing more pressures on the section 232 tariff debate. On June 1, the EU’s tariffs imposed in retaliation for Trump’s 2018 steel and aluminum duties of 2018 are due to more than double. Last week U.S. Commerce Secretary Gina Raimondo said the section 232 steel and aluminum tariffs “have been effective” and USTR nominee Katherine said tariffs were an important tool. Both however have acknowledged that the Biden Administration plans a wholesale review of the tariffs and other inherited trade policy measures.
- The U.S. Court of International Trade dismissed a challenge Thyssenkrupp Materials to the Section 232

exclusion process, stating that the statute provides broad discretion. The tariffs in the challenge were those imposed in 2018 by the Trump administration of on imports of steel and aluminum. The court determined in the opinion that “Thyssenkrupp has made no allegation in its Complaint that it requested an exclusion and that Commerce improperly denied it. The Complaint does not challenge how the regulation was applied to a specific exclusion request from Thyssenkrupp, but rather that the regulations require Thyssenkrupp to apply for an exclusion in the first place.”

- 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.S. - U.K. Trade

- Sen. Chuck Grassley (R-IA) urged the Biden administration to consider a trade deal with the U.K. as its next trade priority following the announcement of the fourth-month tariff suspension regarding the WTO civil aircraft disputes. “I think the UK would be the most important one,” he said when asked what executive trade action the administration should pursue next. Sen. Grassley added other trade priorities or next moves stating, “And then whether or not we’re going to get into [the Comprehensive and Progressive Agreement on Trans-Pacific Partnership].” “And then India would be high on the list, but I think India’s going to be a more difficult one. I think dealing with sub-Saharan Africa is the next best one.”
- 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.
- Organic food producers are considering halting exports to the U.K. as they face costly red tape after Brexit and instead wait for a new digital system. The U.K., unlike the EU, has not created its own digital certification system to file products certified as organic. Exporters say, “we’ve gone back basically to the seventies” to get organic food across the border and that the process is “a total mess, a complete, complete mess.”

Trade Promotion Authority

- Renewal of Trade Promotion Authority (TPA) in 2021 remains very uncertain despite some domestic and trade policies for the Biden Administration becoming 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 commentators have pointed to a divided Congress and other domestic priorities as impediments to TPA renewal in 2021.
- William Reinsch, Scholl Chair of International Business at the Center for Strategic and International Studies (CSIS), commented on the progress of TPA. “A lot of us have told the administration they need to do it -- that they will wish they had later on when they discover they need the authority, but it looks like they’re going to make the same mistake Obama made: Wait so long to [get TPA] that there’s no time left to finish anything once they get the authority,” Reinsch said.



*William Reinsch, Scholl
Chair of International
Business at the CSIS*

“So, unless everyone opts for a straight extension, which I think is very unlikely, I don’t see them getting to it until the fall at the earliest and more likely next year. I hope I’m wrong about that, but that’s the way it looks right now,” Reinsch continued.

- 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.

U.S. – EU Trade

- The U.S. and the EU last week concluded negotiations to adjust Brussels’ agricultural quotas, following the U.K.’s departure from the EU. The agreement – which took two years to negotiate – determines how to split tariff rate quotas (TRQ) quantities between the EU and the U.K., based on recent trade flows. “Once implemented, this agreement will provide market access certainty for US producers and exporters to the EU,” acting USTR María Pagán said in a [USTR statement](#). The agreement covers dozens of quotas and billions of dollars in trade for products including beef, poultry, rice, dairy products, fruits, vegetables and wines. USTR noted that the agreement will be signed and implemented after formal approval procedures are completed by the EU. The EU still needs to adopt the agreement and then send to the European Council and European Parliament for ratification, before entering into force. The EU is conducting similar negotiations with 21 other WTO partners and has completed agreements with a few trading partners including, Argentina, Australia, Norway, Pakistan and Thailand.
- Agriculture Secretary Tom Vilsack said that the tariff suspension between the U.S. and the EU could open the door to new trade opportunities. “Maybe that gives us an opportunity to have a conversation about trade agreements in both the UK and the EU. Maybe that gives us an opportunity to open the door with the understanding that any trade agreement must include open access to agricultural products in order for it to be successful,” Vilsack said.
- Although the U.S. and EU have reached a tariff suspension agreement on the civil aircraft dispute, another set of EU tariffs are approaching. EU retaliatory tariffs on the 2018 Trump administration’s steel and aluminum duties are scheduled to double on June 1. This will heavily impact U.S. whiskey producers. Lawson Whiting, president and chief executive of Brown-Forman, the company behind Jack Daniel’s, said, “The steel and aluminum dispute is still hurting American whiskey consumers, workers and companies on both sides of the Atlantic. More harm will be caused if tariff rates double on June 1.” On the flip side, U.S. steel producers support the Section 232 tariffs, believing they are effective and legal.

Civil Aircraft Disputes

- As reported earlier, the U.S. and the U.K. announced a 4-month suspension of tariffs related to the WTO civil aircraft disputes. As noted in a [joint statement](#) from USTR and the British Trade Ministry, “The United Kingdom and the United States are undertaking a four-month tariff suspension to ease the burden on industry and take a bold, joint step towards resolving the longest running disputes at the World Trade Organization.” The statement continued, “The United States will now suspend retaliatory tariffs in the Airbus dispute from March 4, 2021, for four months. This will allow time to focus on negotiating a balanced settlement to the disputes and begin seriously addressing the challenges posed by new entrants to the civil aviation market from non-market economies, such as China.”
- The EU and U.S. also announced a similar agreement to suspend for four months the tariffs associated with the Airbus and Boeing WTO civil aircraft disputes. In a [statement](#), EC President Ursula Von der Leyen

said, “As a symbol of this fresh start, President Biden and I agreed to suspend all our tariffs imposed in the context of the Airbus-Boeing disputes, both on aircraft and non-aircraft products, for an initial period of 4 months. We both committed to focus on resolving our aircraft disputes, based on the work our respective trade representatives.”

- USTR’s [press release](#) on the suspension under the aircrafts disputes emphasized, the suspension will cover all tariffs both on aircraft as well as on non-aircraft products, and will become effective as soon as the internal procedures on both sides are completed.” The statement continued noting, “This will allow the EU and the US to ease the burden on their industries and workers and focus efforts towards resolving these long running disputes at the WTO.” “The EU and the US are committed to reach a comprehensive and durable negotiated solution to the Aircraft disputes.”
- 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 forward 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 conjunction with recent WTO’s arbitrator’s announced award level of \$4 billion on U.S. products.

Transition 2021

- Former Australian finance minister Mathias Cormann is set to become the new leader of the OECD. Cormann, backed by both the U.K. and France, narrowly beat Cecilia Malmstrom, the former EU trade commissioner. Cormann is facing criticism for previously representing a government that was skeptical of climate change. Jennifer Morgan, international executive director of Greenpeace, said, “We have little confidence in Mr. Cormann’s ability to ensure the OECD is a leader in tackling the climate crisis when he himself has an atrocious record on the issue, including opposition to carbon pricing.”
- The latest reports indicate this week the Senate is poised to vote on the nomination of USTR nominee Katherine Tai. According to the Senate Press is set to vote on Tai after Senator Schumer files a cloture vote, likely on Monday 15th. The Senate Finance Committee held the hearing for USTR Nominee, Katherine Tai on Feb. 24. Shortly after the hearing, the Committee unanimously voted to advance the nominations of Katherine Tai to be U.S. Trade Representative.



*Mathias Cormann, OECD
Secretary-General designate*

WTO

- The U.S. Congressional Research Service released a [report](#) on the rules and limits on U.S. Domestic Support at the WTO. The report serves as a guide on how U.S. domestic agricultural support policies, like the farm bill, can be evaluated to determine how it will be classified and whether it complies with the Agreement on Agriculture and the SCM agreement. The report states, “The 2018 farm bill includes a provision, Section 1701 (7 U.S.C. §9091(c)), that serves as a safety trigger for USDA to adjust program outlays (subject to notification being given to both the House and Senate agriculture committees) in such a way as to avoid breaching the AMS limit.”

- EU Director General for Trade Sabine Weyand said the U.S. and EU should work together to lead a new initiative at the WTO to develop rules to ensure “competitive neutrality” and combat China’s rise. Wayland commented, “We think it would be good to relaunch that trilateral work now in the coming months in order to agree [on] a blueprint for an ambitious plurilateral initiative on competitive neutrality. This initiative would have a wide scope. It would cover many situations where state interventions distort competition and harm the trading interests of the WTO members – industrial subsidies, state-owned enterprises, forced technology transfers – but also the issue of pro-competitive domestic regulation.”
- As noted earlier, the WTO will convene the 12th ministerial conference in Geneva, Switzerland on Nov. 29 rather than in Nur Sultan, Kazakhstan. The Ministerial, originally postponed in 2020 due to the global pandemic was pushed back to late 2021. The decision from the General Council follows on the 2020 meeting host country Kazakhstan’s offer to “co-host” the Ministerial in December in Geneva. Kazakhstan was set to host the 12th ministerial conference in June last year. After it was postponed, Kazakhstan offered to host at the same time this year, but members continued to express concerns as they grappled with an unpredictable COVID-19 environment and safety restrictions.



Sabine Weyand, EU Director General for Trade

WTO Reform

- Sens. Rob Portman (R-OH) and Ben Cardin (D-MD) introduced a resolution calling for WTO reforms and U.S. leadership at the WTO. The bipartisan resolution ([SRes 101](#)) outlines specific WTO reform proposals including:
 - expanding the use of multi-national trade agreements between countries to ensure that only countries party to the trade agreement get the benefits of membership;
 - restoring the intended meaning to trade remedy provisions that, thanks to the WTO’s judicial activism, have limited the ability of the United States to crack down on foreign trade cheats;
 - beefing up rules against currency manipulation; and
 - creating new rules to discipline subsidies and state-owned enterprises.



Senator Robert Portman

Sen. Portman, a former USTR in the George W. Bush Administration, acknowledged the need for WTO reform stating, “By identifying the problem and suggesting some potential solutions, this bipartisan resolution is a start to addressing and fixing some of the shortcomings of the WTO in order to support American workers against unfair foreign trade practices and enhance the ability of American farmers, workers, and businesses to access foreign markets.” Further details in [press release](#).

- Vice President Kamala Harris and WTO Director General Ngozi Okonjo-Iweala spoke last week and “They committed to work together to address the economic and health consequences of COVID-19 and climate change, and to prioritize resilience in the global supply chain,” according to a statement by the White House. Specifically, the two leaders “agreed” on the importance of using trade to promote equity, improve labor and human rights and “advance sustainable development,” the statement read. They also discussed a “need” to reform the WTO to produce outcomes on key issues. “The Vice President highlighted the priority of the United States to invest in health and technology as engines for growth and to advance sustainable development,” the statement continued.
- According to *POLITICO*, the U.K. “will not support a return of the WTO’s dispute settlement arm that allows it to make new laws.” Rather than supporting the EU proposal for WTO reform, the U.K. is in broad agreement with the U.S. and Japan who argue that the WTO does not have the authority to create a new body of law based on previous decisions.

Ag Economy Barometer

- February's *Ag Economy Barometer* reading of 165 remained near the previous month's index of 167. Producers continue to report strong current conditions. Though slightly lower at an index of 165, February's level parallels strong pre-pandemic sentiments nearly 12 months earlier for the farm economy, recently buoyed by the ongoing rally in crop prices, expectations for higher farmland values, and farmland rental rates. Ongoing strength in ag commodity prices and farm income continue to support producers' perspective on current conditions while concerns about possible policy changes affecting agriculture and eroding confidence in future growth in ag trade continue to weigh on producers' future expectations.

