

## TRADE UPDATE Food & Agriculture



Provided by CRA

April 6, 2021

### HIGHLIGHTS

- **[U.S. – China](#)**: The G-7 chair made several references to China trade issues including tackling harmful market distorting trade practices such as harmful industrial subsidies. Additionally, USTR’s 2021 National Trade Estimates report on foreign trade barriers notes several continuing trade barriers with China and that USTR is examining foreign labor practices that may impact labor obligations in free trade agreements.
- **[U.S. – USMCA](#)**: Agriculture Secretary Tom Vilsack said that the U.S. does not plan to utilize USMCA’s dispute resolution mechanism anytime soon to address Mexico’s agriculture trade issues.
- **[U.S. – U.K.](#)**: U.K. Trade Minister Liz Truss said the Biden Administration should “desist” from its threat to levy \$325 million of tariffs on British products in response to Britain’s new digital services tax.
- **[WTO](#)**: G-7 trade ministers embraced WTO reform by allowing negotiation of more plurilateral agreements among willing members to address issues such as e-commerce.

**Quote:** “Fundamentally, our like-minded democracies need to win the battle for the soul of global trade” (U.K. International Trade Secretary Liz Truss' opening statement at the inaugural G7 Trade Track)

### China Trade

- USTR Katherine Tai joined her G-7 trade counterparts at the G-7 summit hosted by the United Kingdom. The discussions included broad range of trade priority topics, including ways to promote free and fair trade, digital economy, climate change, trade and health, and women’s economic empowerment. China trade concerns and the global trading system were less prominent. However, the G7 [chair’s statement](#) made several references to China trade issues:
  - The need for leadership “to respond to the challenges faced by the multilateral trading system,” including important reforms related to “transparency, special and differential treatment and dispute settlement”;
  - The need to tackle harmful “market-distorting” trade practices such as “harmful industrial subsidies, including those causing excess capacity”;
  - Joint commitments to “open digital markets and their opposition to digital protectionism,” and views that digital markets must be “competitive, transparent, and accessible to international trade and investment,” as well as the “importance of data free flow with trust.”The G-7 trade ministers are set to meet again in May and seek progress on priority issues ahead of the 12<sup>th</sup> WTO ministerial conference, set for the week of November 29 in Geneva, Switzerland.
- The Office of the U.S. Trade Representative (USTR) has released its annual [National Trade Estimate Report on Foreign Trade Barriers](#) (NTE) that addresses the status of foreign trade and investment barriers to U.S. exports worldwide. In the USTR’s [press statement](#), Ambassador Katherine Tai, stated, “The 2021 NTE Report identifies a range of important challenges and priorities to guide the Biden Administration’s effort to craft trade policy that reflects America’s values and builds back better.”
- The 2021 NTE report contains extensive sections pertaining to continuing trade barriers with China and Russia. In releasing the report, USTR highlighted China’s trade and economic practices stating the new USTR [report](#) promises further action to address China’s harmful trade practices. The report states, “China’s state-led approach to the economy and trade makes it the world’s leading offender in creating non-economic capacity, as evidenced by the severe and persistent excess capacity situations in several

industries, including steel, aluminum, and solar.” The report continues, that China is "well on its way to creating severe excess capacity in other industries" by "doling out hundreds of billions of dollars to support Chinese companies and requiring them to achieve preset targets for domestic market share — at the expense of imports — and global market share in several advanced manufacturing industries." Finally, "USTR will continue its bilateral and multilateral efforts to address these harmful trade practices," the statement said.

- The annual NTE report examines the largest U.S. export markets, covering 61 countries, the European Union, Taiwan, Hong Kong and the Arab League, and includes each of the United States’ 20 free trade agreement partners and other economies and country groupings. Collectively these trade partners represent over 99 percent of U.S. goods trade and 87 percent of U.S. services trade.

*Phase One Agreement*

- According to February 2021 Census data, U.S. agricultural exports to China totaled \$5.8 billion. This compares to a needed pace of \$8.1 billion in agriculture exports for the year 2 goal to be reached. Cumulative agriculture Phase One product exports to China in the first two months of 2021 presently lag (28%) the pace estimated to meet purchase commitments under the deal.

## 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



Source: USTR, GTIS, U.S. Census Bureau, FarmBureau Calculations

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- The [USTR National Trade Estimate Report](#) states that China still has work to do on the IP rights protections mandated under the Phase One agreement. While China has “published a number of draft measures for comment and issued some final measures relating to implementation of the intellectual property chapter of the Phase One Agreement”, China still, “has work to do to finalize the draft measures that it had published and to publish other draft measures in accordance with the Intellectual Property Action Plan that it released in April 2020.”
- The U.S.-China trading relationship will likely remain status-quo for the near future. Joe Glauber, senior fellow at the International Food Policy Research Institute and a former USDA chief economist commented on the fragile relationship saying, “The (USTR) is doing the right thing. She’s going around to all these other countries and saying, ‘OK, how do we best engage China and how do we get back to a more normal relationship?’ But in the meantime, we’re stuck in this limbo where things can go south in a hurry if all of a sudden Chinese concessions start being withdrawn or they just said they’re not going to live up to the commitments made under ‘phase one.’” Glauber added, “China has commitments under the so-called ‘phase one’ agreement, but all the way along a lot of people have felt like I do — that it would be far better when all these tariffs come off. On the other hand, the (Biden) administration is in a bind because

you can't just say, 'OK, we're taking off all the tariffs' when you put them on in the first place to get China to behave better in the world markets."

## USMCA

- Agriculture Secretary Tom Vilsack said that the U.S. does not plan to utilize USMCA dispute resolution mechanism soon to address Mexico's agriculture trade issues. The comments follow calls from lawmakers to use USMCA enforcement action on the potato exports issue, a [letter](#) by Alliance for Trade Enforcement and signed by a broad coalition of U.S. industry, and a widely circulated letter by the U.S. agriculture industry. Vilsack said, "There is a process under the USMCA for raising these issues and having these conversations. And I am confident that these conversations will continue to be raised and concerns will be voiced. And as they are, there are processes that could potentially be used." Yet Vilsack emphasized, "We're not there -- anywhere near -- there yet. We're just having these conversations."
- As reported earlier, an agriculture industry coalition addressed a [letter](#) to Secretary Vilsack and USTR Tai detailing a "quickly deteriorating trade relationship" with Mexico. The letter states, "the food and agriculture trade relationship with Mexico has declined markedly, a trend USMCA's implementation has not reversed. We respectfully urge your attention to this important but quickly deteriorating trade relationship." The issues raised include a ban on glyphosate and genetically modified corn, increased obstacles to dairy trade, an organic export certification requirement, a cessation of review and approval of biotechnology applications, implications from meat industry market access and geographical indications, a potato export ban, and a new front-of-pack labeling regulation.
- Adding to the food and agriculture trade concerns, a coalition of manufacturers also sent a [letter](#) noting concerns on Mexico trade issues to USTR Katherine Tai last week. Coordinated by the National Association of Manufacturers (NAM), nearly 20 organizations, making up the Alliance for Trade Enforcement group, raised a number of recent actions by the Government of Mexico that "call into question its commitment to fulfill its obligations under the United States-Mexico-Canada Agreement." The group expressed its readiness to work with Ambassador Tai and the USTR team to "fully enforce commercial aspects of the USMCA, defend U.S. exports to Mexico, restore Mexico's compliance with its USMCA obligations and monitor for potential violations moving forward." The letter highlights a wide range of issues in Mexico affecting manufacturers, including:
  - Telecommunications, broadcasting and audiovisual services
  - Biopharmaceuticals and agriculture biotechnology;
  - Food and food labeling regulations;
  - Energy and power generation; and
  - Customs and trade facilitation.
- Following a recent conversation with USTR Katherine Tai, Canada Trade Minister Mary Ng says that Canada seeks to negotiate a new softwood lumber deal with the U.S. Ng said recently, "Canada does believe that a negotiated agreement will be in the best interests of both of our countries." "Of course, both countries have ambitious plans to deal with affordable housing and to make sure that there are opportunities for workers, and we believe that the best solution is a negotiated one. This is something that we'll need to continue to work on, for sure," Ng added.



*Mary Ng, Canadian Trade Minister*

## Section 232 Investigations

- No significant updates on section 232 tariffs since the Economic Policy Institute (EPI) report asserted the section 232 tariffs should remain because they have spurred increased job and economic fortunes of the U.S. steel industry. EPI argued that the 232 national security tariffs imposed on steel and aluminum imports directly created 3,200 new steelmaking jobs and reduced U.S. steel imports by 27 percent by 2019 with no meaningful real-world impact on the prices of steel-consuming products, such as motor vehicles. The [report](#), *Why Global Steel Surpluses Warrant US Section 232 Import Measures*, concludes that

the tariffs need to be kept in place until a multilateral solution to the problem of global excess steel capacity is reached.

- Absent a pause or resolution, the EU is slated to increase retaliatory tariffs in June under the section 232 tariff dispute. On June 1, the EU’s tariffs imposed in retaliation for former President Trump's 2018 steel and aluminum duties of 2018 are due to more than double. 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. On the international front, the EU, China and other countries challenged the U.S. tariff action at the WTO. A WTO ruling is expected in 2021.

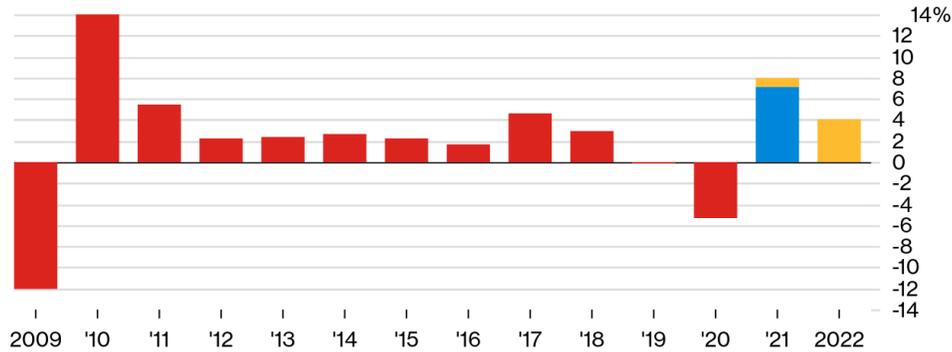
**COVID-19 Developments**

- The WTO raised its projection for growth in global merchandise trade this year to 8% — the largest increase since 2010 — while warning the global pandemic continues to pose the greatest threat to a strong rebound in trade as new variants and increased infections could forestall a global recovery. Global merchandise trade fell 5.3% in 2020.

**Brighter Trade Outlook**

The WTO expects trade will rebound 8% in 2021 and 4% in 2022

■ Annual change in volume of world merchandise trade ■ October 2020 forecast  
 ■ March 2021 forecast



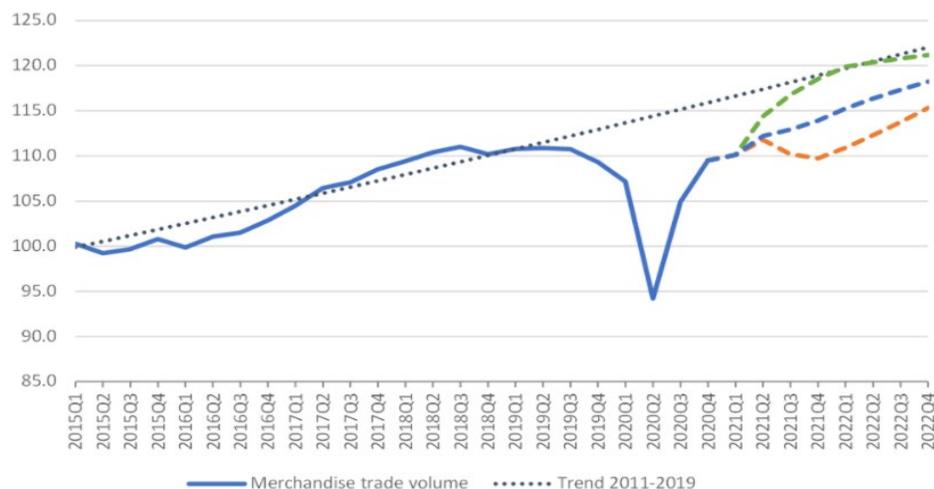
Source: World Trade Organization

**Bloomberg**

- The [WTO analysis](#) noted that trade growth will likely slow to 4.0% in 2022, with the total volume of global trade remaining below the pre-pandemic trend.

**Chart 1: World merchandise trade volume, 2015Q1-2022Q4**

Index, 2015=100



## U.S. – Kenya Trade

- Ambassador Tai confirmed last week the Biden Administration is still reviewing the bilateral free trade negotiations with Kenya. In speaking with her Kenyan counterpart, Minister of Industrialization, Trade and Enterprise Betty Maina, Tai indicated she is reviewing the negotiations to “ensure that any agreement aligns with the Biden-Harris Administration’s Build Back Better agenda,” according to a USTR [statement](#). During the Trump Administration, the U.S. and Kenya completed only two rounds of negotiations and were interrupted by the Covid-19 pandemic. Last week USDA Secretary Vilsack expressed his optimism that the Biden Administration will move forward with the Kenya trade talks although he did not specify a time frame.



Betty Maina, Kenyan  
Trade Minister

## U.S. - U.K. Trade

- U.K. Trade Minister Liz Truss said the Biden Administration should “desist” from its threat to levy \$325 million of tariffs on British products in response to Britain’s new digital services tax, according to a report by the *Financial Times*. Products include ceramics, make-up, overcoats, furniture and games consoles. Truss said, “I would urge them to desist from any tariff raising” as “we don’t believe that tariffs are the answer to resolving issues.” The U.K. imposed a 2 percent digital services tax in April 2020 on revenue of search engines, social media services and online marketplaces.
- At the recent G-7 meeting, U.K. trade Minister Liz Truss warned of trouble resulting from a fragmentation of global trade. A U.K. official said, “(Truss) said to the group that she thinks we’re at a critical juncture in global trade. We need to reverse the fragmentation of global trade and get the global system and WTO working again, otherwise we risk big countries going their own way and operating outside an agreed set of rules, which always spells trouble.”
- The U.K. is negotiating bilateral memoranda of understanding on professional qualifications with U.S. states such as Maine and Idaho. The British government said they have “agreed to several MoUs with different states on mutual recognition of qualifications issues in architecture and they’re working hard to do that in engineering as well.” Trade consultant Shanker Singham of Competere, said, “There is value in doing this even with states where there isn’t a particular U.K. demand for certain types of services (legal services in Idaho for example),” because it “will bring other states which could be more critical (like Texas) into the frame.”
- According to some trade observers, completing a U.S. - U.K. deal will carry into 2023. TPA is expected to lapse on July 1 and the Biden Administration is prioritizing China and investing in domestic programs to boost the U.S. economy. Additionally, U.S. mid-term elections in 2022 pose a high hurdle for TPA passage in the short term. “I have trouble seeing how the Biden administration makes this work in the next two years,” said Simon Lester, at the Center for Trade Policy Studies at the Cato Institute. “I don’t know why they’d want to bring it up with all the other things on their agenda.” Others have noted that the Biden Administration is focused on leveraging the current 4-month tariff pause with UK and EU to secure a resolution to the decades old WTO civil aircraft disputes, rather than prioritizing TPA renewal.
- Negotiations for the U.S.-U.K. trade agreement have missed a critical deadline for swift passage through Congress before the expiration of the Trade Promotion Authority. USTR would have had to formally notify Congress by April 1 of its intention to sign an agreement with the U.K. in order to have TPA protection. In reporting by *Financial Times*, people familiar with the negotiations say the deal has also been stalled by the Biden Administration’s decision to focus talks on resolving the long-running Airbus-Boeing dispute. Agriculture remains a contentious part of the negotiations according to several observers. However, a U.K. source said not having TPA “doesn’t blow the whole thing out of the water”.

## U.S. – EU Trade

- USTR Tai told EU officials she wants to develop a more positive and productive trade relationship. Tai spoke with Spain’s Industry Minister Reyes Maroto and the leaders agreed to “strengthen U.S.-Spanish collaboration on mutual interests” and to find “mutually beneficial outcomes” on Spain’s digital services tax and excess steel and aluminum capacity. Ambassador Tai also spoke with EU’s competition commissioner Margrethe Vestager. USTR said that they agreed to work together on climate change, the digital economy and strengthening U.S.-EU cooperation to deal with non-market economies like China.
- As noted earlier, USTR Tai spoke with EU Trade Commissioner Valdis Dombrovskis recently. A USTR readout said, “Ambassador Tai emphasized her strong desire to build on a positive and productive relationship with the European Union.” The two pledged to maintain “regular engagement” on key issues, including WTO reform. The USTR readout continues, “They also discussed their strong interest in resolving the dispute related to large civil aircraft subsidies and addressing global steel and aluminum overcapacity.” The EU readout of the meeting cited “trade and technology” as examples of those issues.



*Reyes Maroto, Spain's  
Industry Minister*

### *Civil Aircraft Disputes*

- With a U.S.-U.K. deal on hold, the U.K. is hoping to resolve the civil aircraft dispute as short-term goal. According to *POLITICO*, the U.K. and U.S. are currently negotiating the dispute in bilateral talks without the EU. Airbus makes the aircraft wings in the U.K. but are attached in France. A U.K. government official said, “We were very open with the EU and specifically asked them if they had a desire to work in a trilateral manner, and they very clearly said, ‘No, it’s a bilateral dispute between the EU and the U.S.’” However, Inu Manak, a trade research fellow at the Cato Institute said U.K. trade officials should not expect a civil aircraft agreement to pave the way for a U.S.-U.K. trade deal, saying a resolution is not necessarily “a precursor for other talks, at least not an indication that future talks will go smoothly,” since controversial issues like agriculture and food standards remain.
- Boeing Chief Executive Dave Calhoun urged the U.S. to keep human rights and other disputes separate from trade relations with China. He said that warned Airbus would gain if Boeing was unable to access the Chinese market. Calhoun said, “I am hoping we can sort of separate intellectual property, human rights and other things from trade and continue to encourage a free trade environment between these two economic juggernauts. ... We cannot afford to be locked out of that market. Our competitor will jump right in.”
- In March the U.S., EU and the U.K. announced a 4-month suspension of tariffs related to the WTO civil aircraft disputes. USTR’s [press release](#) on the suspension arrangement 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.

## Trade Promotion Authority

- USDA Secretary Tom Vilsack this urged Congress to renew Trade Promotion Authority (TPA) which expires on July 1<sup>st</sup>. “I’m hoping that Congress during the course of this year begins to get serious about resuming and extending Trade Promotion Authority, which will then give us the opportunity to complete negotiations with the U.K. potentially,” Vilsack said during an annual agricultural trade conference organized by the Virginia governor’s office. Vilsack’s comments were the strongest of any Biden Administration official to date on TPA renewal. USTR Tai avoided specifics on TPA renewal during her Senate confirmation hearing and Biden Administration officials have maintained that new trade agreements are a lesser priority as they focus on domestic policy issues and economic recovery. Renewal of Trade Promotion Authority (TPA) prior to July expiration seems very slim as early domestic and trade policies for the Biden Administration solidify. Implications of the potential lapse of TPA this summer remains unclear for the paused U.K. and Kenyan trade talks. The window for a completed U.K. or Kenya FTA to receive consideration under the current TPA authority has passed (April 1, 90-day Congressional notification).
- TPA allows the White House to submit agreements to Congress for a straight up-or-down vote without any amendments. It expires on July 1, 2021. But USTR must notify Congress of its intent to sign an agreement 90 days in advance to receive TPA protection. It also must provide the U.S. International Trade Commission with details of the agreement 90 days before signing.

## India

- U.S. apple exports to India finally resumed after a two-week trade stalemate. On March 1, India implemented a law that required apple imports to have non-genetically modified certifications. Neither USDA nor Washington Ag Department issued non-GMO certifications and therefore, apples from Washington State were barred from the Indian market. Hector Castro, WSDA communications director said, “WSDA created the non-GMO certification for apples strictly to maintain market access to India. Our agency worked with the tree fruit industry to develop inspection protocols and a certificate demonstrating the non-GMO status of our apple shipments, and that process was accepted by officials in India.” India also required certifications on plum, pepper, tomato and melon shipment imports.

## WTO

- WTO Director General Ngozi Okonjo-Iweala plans to meet with coronavirus vaccine manufacturers and WTO members to negotiate fairer manufacturing and distribution terms for vaccines for developing countries. Okonjo-Iweala said, “The best economic stimulus that can help us to recover quickly is access to vaccines. One of the main objectives of the conference is to have the manufacturers [of vaccines] look at the issue of expanding manufacturing capacity.”
- No updates on new Deputy Director General vacancies. Last week, terms of the [Four WTO deputy directors-generals](#) expired (i.e., Alan Wolff, Karl Brauner, Yonov Frederick Agah and Yi Xiaozhun). A new DG typically appoints new deputies, but no replacements have yet been announced.

### *WTO Reform*

- G-7 trade ministers also echoed the Biden administration’s goal to “build back better” and underscored their commitment to make progress this year on WTO reform, climate change, the digital economy, and to create more opportunities for women through trade. The trade ministers embraced WTO reform allowing negotiation of more “plurilateral” agreements among willing members to address issues such as e-commerce. South Africa and India remain in strong opposition to plurilateral agreements.