TRADE UPDATE
Food & Agriculture

April 13, 2021

Provided by CRA

HIGHLIGHTS

- **U.S. – China:** The Senate Foreign Relations Committee released the Strategic Competition Act, which encourages using trade negotiations to strengthen relationships in Asia and Europe in an effort to counter China.
- **U.S. – USMCA:** Business Roundtable Trade and International Committee Chair, Business Council of Canada Chair and Mexico Business Round Table International Committee head joined together to write an article urging the U.S., Canada, and Mexico to fully implement USMCA.
- **U.S. – U.K.:** A bipartisan group of 50 U.S. Congressional members sent a letter to USTR Tai urging the Biden administration to work with the EU and UK to immediately suspend retaliatory tariffs on American Whiskey products.
- **WTO:** The U.S. said that members are not properly notifying the use of special agricultural safeguards or are including inconsistences in their data, in recent submissions to the WTO.

Quote: "We've seen that trade has helped us manage this pandemic and has made the economic impact perhaps better able for governments to handle than it would have been – even the health impact"
(WTO Director-General Ngozi Okonjo-Iweala at the World Bank's virtual spring meetings)

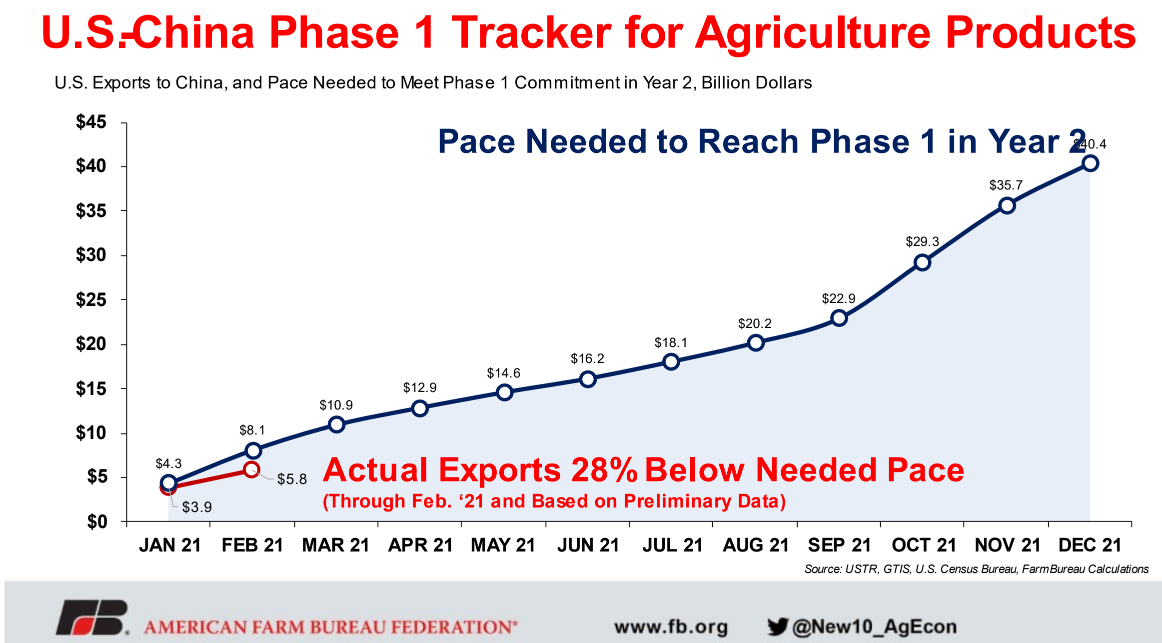
China Trade

- The Senate Foreign Relations Committee released a bill, the Strategic Competition Act, that advocates using trade negotiations to strengthen relationships in Asia and Europe in an effort to counter China. According to *Inside U.S. Trade*, the bill includes provisions such as boosting cooperation with U.S. allies to counter China, a digital goods agreement with Asia-Pacific countries, an EU comprehensive trade deal, cooperation with the Association of Southeast Asian Nations to expand import restrictions on Chinese technology, and the launch of a joint innovation fund with Japan. Regarding trade, the legislation states the USTR should "negotiate bilateral and plurilateral agreements relating to digital goods with the European Union, Japan, Taiwan, the member countries of the Five Eyes intelligence-sharing alliance, and other nations, as appropriate." The committee will vote on the bill on April 14th.
- As noted earlier, USTR issued 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 agency'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.

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.



- 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."

USMCA

- A new Mexican regulation would abolish Mexico's acceptance of U.S. organic standards. In December, Mexico began mandating that U.S. organic exports would need an additional certification indicating the goods conformed with Mexican standards. Currently, Mexico has temporarily delayed implementation of the law until June 26. The Organic Trade Association estimated the costs due to this new Mexican regulation ranges from $100,000 to more than $1.5 million.
- Business Roundtable Trade and International Committee Chair Lance Fritz, Business Council of Canada Chair Don Lindsay and Mexico Business Round Table International Committee head Juan Gallardo Thurlow joined together to write an article urging the U.S., Canada, and Mexico "to focus their efforts across three fronts: enhancing the coordinated North American pandemic response, ensuring full implementation of the U.S.-Mexico-Canada agreement (USMCA), and advancing North American competitiveness." The write, "the USMCA can only reach its potential if it is fully implemented." "The private sector stands ready to partner on the development of that agenda to empower our businesses and workers to better compete with the world," the article continues.
- The U.S. ITC finalized procedures governing how it will implement USMCA provisions on investigations of Mexican cross-border trucking services. The Federal Register notice delineates the rule on investigation

procedures into whether Mexican long-haul trucking services are harming tucking services in the U.S. This final rule goes into effect on May 10.

- As noted earlier, Secretary Vilsack said that the U.S. does not plan to utilize USMCA's 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. 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."
- 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.

Section 232 Investigations

- The U.S. Court of International Trade (CIT) ruled against former Trump's expansion of 232 tariffs on steel and aluminum products. A summary judgment declared that by expanding Section 232 tariffs to steel and aluminum derivates last January, the Trump administration exceeded its authority under the law ("contrary to law"), according to a court filing. The CIT ruling concerned a case brought by Texas-based importer PrimeSource after the Biden Administration declined to present information intended to prove the administration met all the necessary requirements of Section 232 of the Trade Expansion Act of 1962. Under the CIT ruling invalidating the order expanding the Section 232 to steel and aluminum derivatives, the Biden Administration must refund any deposits collected under the invalid order.
- A bipartisan group of 50 U.S. lawmakers called on the Biden Administration to lift the section 232 steel and aluminum tariffs. In a letter to USTR Katherine Tai, led by John Yarmuth (D-KY) and Andy Barr (R-KY), Co-Chairs of the Congressional Bourbon Caucus, the Members "strongly" urged President Biden to overturn the prior administration's tariff policy and remove the duties on wine and distilled spirits. In the letter the lawmakers said, "We hope that the recent agreements to temporarily suspend tariffs that were imposed in connection to the WTO [World Trade Organization] large civil aircraft subsidy dispute will lead to the prompt removal of all tariffs on U.S., EU, and UK wine and distilled spirits." The letter further called on USTR Tai to "work with the EU and UK to secure the immediate suspension of tariffs on American Whiskey and secure agreements that result in the removal of all tariffs on U.S., EU and UK distilled spirits and wine." EU retaliatory levies on American bourbon and whiskey are set to double in the coming months, and the U.K. is weighing its options.

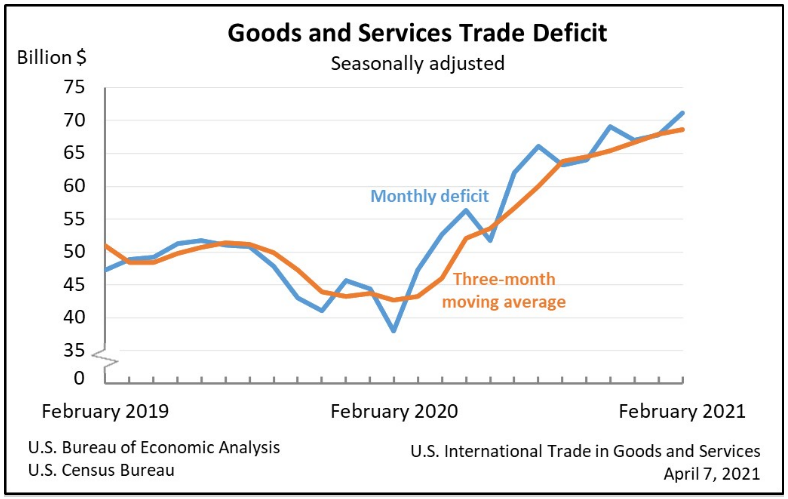
Congressman John Yarmuth

- Absent a pause or resolution regarding current tariffs, the EU is slated to increase its retaliatory tariffs in June under the section 232 tariff dispute as outlined in its WTO notification. 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.

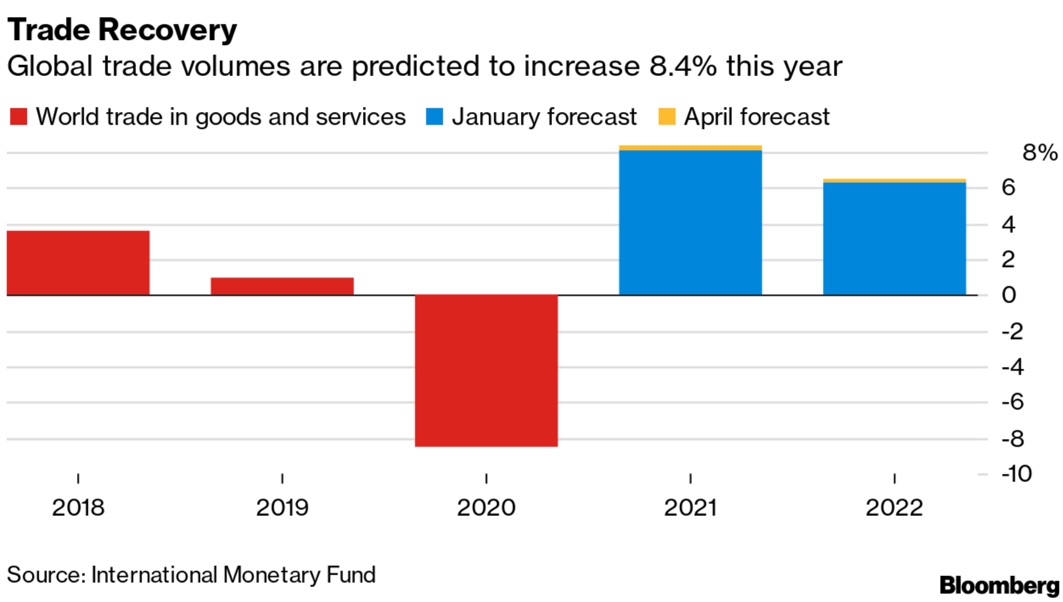
COVID-19 Developments

- The U.S. trade deficit continued to widen in February, increasing $3.3 billion (4.8 percent), from $67.8 billion in January (revised) to $71.1 billion, as exports decreased more than imports. The Census Bureau reported the February deficit for goods and services at $71.1 billion was the highest on record. Gradually rebounding economic growth and business activity in the past several months, along with continuing strong consumer appetite for imported goods are factors driving the deficit.

- Likely reflecting supply-chain constraints, rather than weak domestic demand, monthly goods and services imports declined 0.7% to $258.3 billion. Goods imports fell 0.9% to $219.1 billion. Exports dropped 2.6% to $187.3 billion. Exports of goods tumbled 3.5% to $131.1 billion, likely hurt by unseasonably cold weather across large parts of the country and uneven economic recovery in several U.S. leading trade partners.



- The International Monetary Fund (IMF) upgraded its global economic growth forecast, while warning about widening inequality and economic divergence between advanced and lesser-developed economies. The IMF World Economic Outlook forecasts that world output will expand 6% this year, up from the 5.5% pace estimated in January. This expansion is the largest in four decades of data, coming after a 3.3% contraction last year that marked the worst peacetime decline since the Great Depression. The IMF also upgraded its forecast for trade, predicting an 8.4% increase for 2021.



Section 332

- The U.S. International Trade Commission (USITC) recently held a hearing on cucumber and squash where U.S. producers claimed they were hurt by imports from Mexico. The USITC opened the probe in January after a request by USTR during the Trump administration. Florida Agriculture Commissioner Nikki Fried said during the hearing that lost income for Florida squash and cucumber producers due to imported products over the last five years translated to over "2,500 good-paying jobs in our communities lost, family farms shutting down, and parents struggling to provide for their children."
- Minister Gerardo Lameda, head of the trade office at the Embassy of Mexico also offered remarks at the hearing stating that Florida is the largest producer of cucumbers for the U.S. during "late winter and early spring" while Mexico is the primary provider during "the winter months" to meet U.S. demand. "Imports of cucumbers and squash from Mexico complement the U.S. domestic production to satisfy the increase in consumption. This complementary trade relationship is precisely the mutually beneficial economic integration that NAFTA and now the USMCA was intended to accomplish," stated Lameda.
- Lance Jungmeyer, president of the Fresh Produce Association of the Americas commented on the investigation stating that the real threat to U.S. farmers are storms, floods, droughts and labor shortages. "In reality, many of the problems faced by these growers … have nothing to do with Mexican imports, but everything to do with the (U.S.) growers' inability to supply (the U.S.) market," Jungmeyer said.
- Several Congressional members indicated support for the investigation and wrote a letter to USITC commissioners. Reps. Austin Scott (GA-R)., Darren Soto (FL-D), Dan Kildee (MI-D), Fred Upton (MI-R)., along with 26 other lawmakers signed onto the letter which stated, "a 2019 economic study by the University of Georgia suggests that if import and pricing trends continue, rural Georgia economies face the loss of $1 billion in economic impact including 8,000 jobs."

Congressman Austin Scott

U.S. – Kenya Trade

- Ambassador Tai confirmed recently 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.

U.S. - U.K. Trade

- A bipartisan group of 50 U.S. Congressional members sent a letter to USTR Tai urging the Biden administration to work with the EU and U.K. to immediately suspend retaliatory tariffs on American Whiskey products. The letter was led by led by Rep. John Yarmuth (KY-D) and Rep. Republican Andy Barr (KY-R) and states that Tai should, "work with the EU and UK to secure the immediate suspension of tariffs on American Whiskey and secure agreements that result in the removal of all tariffs on U.S., EU and UK distilled spirits and wine." "Since the tariffs were imposed, our American Whiskey exports to the EU have declined by 37% and to the UK by 53%," the lawmakers state. "We hope that the recent agreements to temporarily suspend tariffs that were imposed in connection to the WTO [World Trade Organization] large civil aircraft subsidy dispute will lead to the prompt removal of all tariffs on U.S., EU, and UK wine and distilled spirits," the letter continues.
- No significant updates on restarting bilateral trade negotiations with the U.K. 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.

<u>U.S. – EU Trade</u>

- Lisa Hawkins, a spokeswoman for the Distilled Spirits Council commented on the damage to U.S. exporters following EU retaliatory tariffs. "American whiskey distillers have suffered long enough from these trade disputes and the doubling of the EU's tariff on June 1 will cause irreparable harm to our once booming exports," Hawkins said. Her comments follow a letter by U.S. lawmakers urging a solution on U.K. and EU retaliatory tariffs.
- USTR Tai recently communicated to 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.

Civil Aircraft Disputes

- With a U.S.-U.K. deal on hold, the U.K. is hoping to resolve the civil aircraft dispute as a 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 then the wings 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.
- 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 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.

WTO

Congresswoman Suzan DelBene

- Democratic Congressional members recently introduced a resolution directing USTR to resume the WTO Environmental Goods Agreement (EGA) negotiations. EGA eliminates tariffs on environmental products like wind turbines and solar water heaters. Negotiations began in 2014 but stalled in December 2016. The resolution states, EGA negotiations "represent a significant opportunity to help countries across the world access high-quality affordable environmental goods while also leveling the playing field for American manufacturers and supporting green jobs." "It is the sense of the House of Representatives that not later than 90 days after the date of the adoption of this resolution, the United States Trade Representative should resume negotiations to conclude the Environmental Goods Agreement," the resolution continues. Democratic Reps. Suzan DelBene (WA), Jimmy Panetta (CA), Don Beyer (VA), Terri Sewell (AL) and Ron Kind (WI) backed the resolution.
- The U.S. said that members are not properly notifying the use of special agricultural safeguards or are including inconsistences in their data, in a recent submission to the WTO. The submission states, "The United States encountered several additional transparency issues around the utilization and administration of SSGs. First and foremost, only 23 of the 33 Members with recourse to an SSG have submitted either an annual notification ... or a statement indicating non-use of the special safeguard provisions for the 2009-2018 period." The U.S. criticized also criticized "persistent delay" in notifications, and "inconsistencies in the reporting of the domestic consumption data."
- The Biden administration reaffirmed that Hong Kong will no longer receive special treatment in trade from the U.S. after China's actions to restrict its autonomy. Secretary of State Blinken said, "In conjunction with this year's report, I have certified to Congress that Hong Kong does not warrant differential treatment under U.S. law in the same manner as U.S. laws were applied to Hong Kong before July 1, 1997." Goods made in Hong Kong will now be labeled as made in China which Hong Kong will likely dispute through the WTO dispute settlement system. The Hong Kong government responded by stating, "The cancellation of so-called differential treatment or any threat to do so by the United States will not stop Hong Kong's prosperity, nor will it stop Hong Kong from continuing to integrate into and contribute to the motherland and gain greater room for development," she said. "Hong Kong is China's Hong Kong. Hong Kong affairs fall entirely within China's internal affairs, where no foreign country has the right to interfere."

WTO Reform

- A top Canadian agriculture official Aaron Fowler said that new WTO environmental rules are likely to be plurilateral, according to a report by *Inside US Trade*. The few remaining multilateral paths on an environmental agreement include the Committee on Trade and Environment and the ongoing negotiations to curb harmful fisheries subsidies
- As reported earlier, 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.

Ag Economy Barometer

- March's Ag Economy Barometer index increased to 177, approaching the record high reading of 184 last October. The 12-point rise in the barometer was largely attributable to agriculture producers' more optimistic view of the future market conditions heading into the spring. Ongoing strength in ag commodity prices and farm income continue to support producers' optimistic perspectives on current conditions, outweighing pessimism of solving trade tensions with China in a manner beneficial to U.S. agriculture.