

TRADE UPDATE Food & Agriculture



Provided by CRA

April 27, 2021

HIGHLIGHTS

- **U.S. – China:** Multiple legislative actions have been introduced in Congress with the common denominator of promoting U.S. competitiveness to counter China. Legislation includes the “Strategic Competition Act”, the “Endless Frontier Act”, and the “Southeast Asia Act.”
- **U.S. – USMCA:** The Canadian dairy tariff rate quota (TRQ) issue has slowed down after the U.S. administration transition and consequently, industry representatives are urging Ambassador Tai to continue consultations.
- **U.S. – U.K.:** Senator Chuck Grassley (R-IA) said that the Biden Administration should provide a timetable for U.S.-U.K. trade agreement negotiations.
WTO: House Ways & Means Republicans are urging USTR Tai in [a letter](#) to reignite the Environmental Goods Agreement negotiations at the WTO.

Quote: “If removing these [Section 232] tariffs is an important part of working with our allies, and working with our allies is important with combatting China, then it should be the prerogative of this committee to reform what I think is the excessive delegation of authority,” (*Senator Pat Toomey during Senate Finance Committee hearing on U.S.-China trade relations*)

China Trade

- Congress has introduced a plethora of legislation to promote U.S. competitiveness to counter China through trade, among other provisions.
 - The Senate Foreign Relations Committee passed the “[Strategic Competition Act](#)”, a comprehensive bill aimed at countering China by an overwhelming bipartisan vote of 21-1. Senate Foreign Relations Chairman Robert Menendez (D-NJ) said in a statement, “With this overwhelming bipartisan vote, the Strategic Competition Act becomes the first of what we hope will be a cascade of legislative activity for our nation to finally meet the China challenge across every dimension of power, political, diplomatic, economic, innovation, military and even cultural.”
 - Additionally, Majority Leader Chuck Schumer (D-NY) and Senator Todd Young (R-IN) introduced another bill, the “[Endless Frontier Act](#),” designed to increase U.S. competitiveness against China. The bill includes provisions to generate a supply chain resiliency program, expand the Manufacturing USA program, and requires a review of technology commercialization.
 - Senate Finance Committee Chair Ron Wyden (D-OR) said he will soon release a bipartisan legislation to boost the U.S. economy “to out-compete China.” The bill is expected to include provisions on counterfeit goods, media censorship in China, and use of forced labor. The bill will also strengthen critical supply chains, “including semiconductors and medical products,” and will step up “trade enforcement and oversight,” Wyden said at the Senate Finance Committee hearing on China. Indicating Republican support, Mike Crapo (R-ID) said, “We need to cut tariffs on inputs that support American manufacturing, or on goods consumed by the American consumer, especially middle- and low-income families. We can achieve that through programs like the Miscellaneous Tariff Bill, and through thoughtful application of the Section 301 tariffs on China.”
 - At the same time, the House passed the “Southeast Asia Act” which was introduced by

Representatives Ann Wagner (R-MO) and Joaquin Castro (D-TX), co-chairs and co-founders of the Congressional U.S.-ASEAN Caucus. The bill “will deepen U.S. engagement with Southeast Asian partners by developing a coherent and clearly communicated regional strategy that addresses all aspects of the relationship, from trade and humanitarian goals to diplomatic and security arrangements” according to a [bill summary](#) by Wagner’s office. “A secure and independent Southeast Asia greatly benefits the United States and contributes to the prosperity of our local economies,” Rep. Wagner said in [a statement](#).

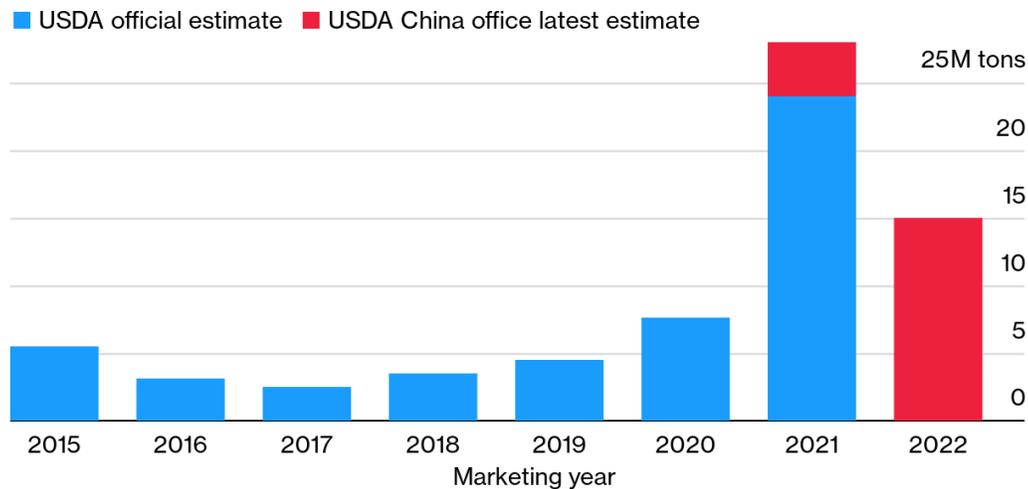
- In response to the rhetoric and legislation by the U.S., Chinese President Xi Jinping called for a new world order and warned against economic decoupling of the U.S. and China at the [Boao Forum](#) for Asia. “The rules set by one or several countries should not be imposed on others, and the unilateralism of individual countries should not give the whole world a rhythm,” Jinping said. He continued, “Bossing others around and interfering in other countries’ internal affairs will not be well received.”

Phase One Agreement

- According to USDA’s April [World Agricultural Supply and Demand Estimates \(WASDE\)](#), China's corn imports will likely hit a record-breaking 28 million metric tons for the 2020-2021 marketing year as the country restocks its domestic reserves and responds to increasing demand for livestock feed. The WASDE estimate is substantially higher than the forecast of 24 million tons in prior reports. “Speculators, mills/plants, and local government reserves are building up corn stocks over fears of future supply chain disruptions, and concerns over weather-related issues that could lower production,” the analysts said. “Sources indicate that substantial (Chinese) corn imports will be necessary to control further price increases and maintain buffer stocks throughout calendar year 2021.”

Appetite for Corn

U.S. ups China's global import estimate for the grain this year to all-time high



Source: U.S. Department of Agriculture

Bloomberg

USMCA

- The Canadian dairy TRQ issue has slowed down after the U.S. administration transition and consequently, industry representatives are urging Tai to continue consultations. Sources claim that there may be more to blame than just the presidential transition. “I imagine they didn’t want their first substantive move on trade to be a suit against a close ally like Canada. In time, however, congressional pressure to act will mount,” a former senior USTR official told *Inside U.S. Trade*. Another source who recently spoke with staff at USTR suggested the dairy dispute with Canada was “clearly not a high priority” for the U.S.

- A coalition representing the cattle and beef industry wrote a [letter](#) to Ambassador Tai and Secretary Vilsack raising issues with Mexico and Canada and urged the Administration to, “take steps to assist America’s cattle farmers and ranchers by giving them the ability to compete in their own domestic market by differentiating their USA-produced beef from foreign beef and beef from foreign cattle.”
- Mexico’s Supreme Court has scheduled a ruling on U.S. potato market access this Wednesday, 28th after previously postponing a ruling twice. U.S. stakeholders complained the delays were politically driven. In an earlier statement, Kam Quarles said, “It wasn’t just a continuing delay. The political hammer came down.” Quarles continued, “We were always trying to be optimists, but now that we’ve gotten two pretty clear indications that something other than the law is operating down there, I think we’re right on the brink of asking USDA and the USTR to pursue the USMCA route.” Some U.S. lawmakers stepped up criticisms of the delayed court decision in recent weeks, saying the present import restrictions are a violation of USMCA and have threatened to urge USDA and USTR to launch an investigation. Sen. Mike Crapo (R-Idaho) said, “Until Idaho’s farmers are able to sell high-quality potatoes to every family in Mexico — as is their right under the United States-Mexico-Canada Agreement (USMCA) — I will continue working with USTR to ensure Mexico upholds its commitments under the USMCA.”
- The U.S. exports about \$60 million worth of potatoes annually, but a favorable ruling for U.S. exporters could raise this number to \$200 million. CONPAPA President Gerardo García Menaut told Agri-Pulse, “The (Mexican) potato growers will keep fighting to protect Mexican phytosanitary measures. The farmers are not against commerce ... but they are focused on protecting plant health.”

Section 232 Investigations

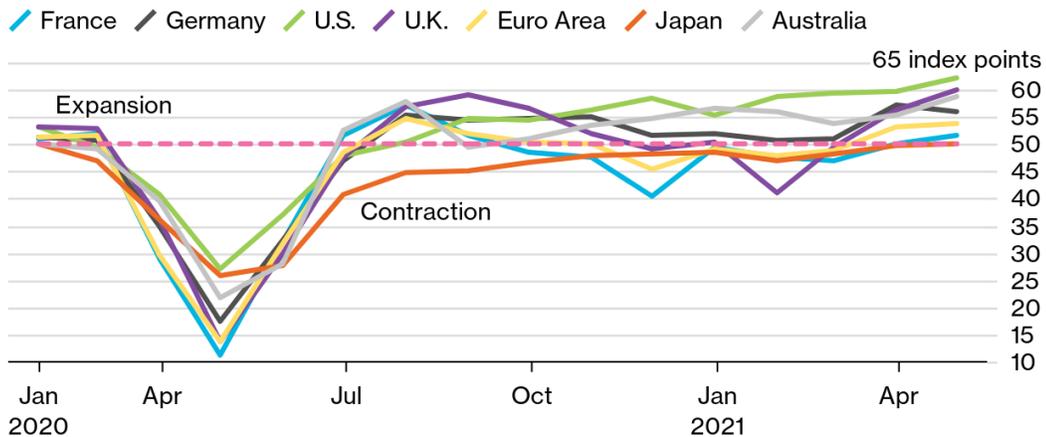
- Harley-Davidson said it will fight the reimposition of the EU’s Section 232 retaliation tariffs. The EU had issued the company a binding origin information decision that determined its motorcycles from its Thailand plant would not be subject to EU retaliatory tariffs on the U.S. However, the EC recently said made an error and revoked the decisions. “Harley-Davidson will be lodging an immediate legal challenge to this decision,” Harley-Davidson said in a statement. “The E.U.’s new ruling will apply to the entire Harley-Davidson product portfolio and will effectively prohibit the company from functioning competitively in Europe. From June 2021, all Harley-Davidson products, regardless of origin, will be subject to a 56% import tariff within the E.U.,” the statement continued.
- The EU has indicated concern that the window is closing for the U.S. to remove the Section 232 steel and aluminum imposed during the Trump Administration. Sabine Weyand, director-general of trade of the European Commission said, “I’m very worried that we are running out of time. We had suggested and are suggesting still that we would also suspend tariffs for a period of six months to give us time to sort out the issues.” “What I’m worried about is that we are on an automatic track to have the second tranche of our rebalancing measures come into force on June 1,” Weyand continued.

COVID-19 Developments

- While global manufacturing and services continue to recover from the pandemic, purchasing managers in several developed economies report businesses are still straining to meet deliveries and keep costs down amid shortages, according to results from the Purchasing Managers’ Index data compiled by IHS Markit. The selected results of several countries indicate strongest manufacturing activity in the U.S., U.K., and Australia (noting China is not included).

Making a Comeback

Developed economies' PMIs all show expansion for first time since January 2020



Source: IHS Markit

Note: Gauges show composite Purchasing Managers' Index data for each country or region

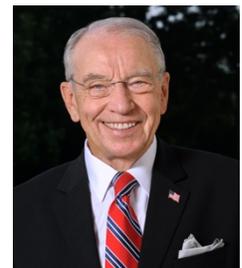
Bloomberg

U.S. – Kenya Trade

- Bilateral trade talks remain paused as Ambassador Tai confirmed recently the Biden Administration is still reviewing the progress on trade negotiations with Kenya under the prior administration. 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. Earlier 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

- Senator Chuck Grassley (R-IA) said that the Biden Administration should provide a timetable for U.S.-U.K. trade agreement negotiations. “Up until this point, I have given them pretty much leeway by not saying, ‘When are you going to start negotiations [for] U.S.-UK?’”, Grassley said. “I would think it would be legitimate now for me to ask a timetable when they’re going to start negotiations because they ought to be into it after 100 days, knowing what they’re doing,” Grassley continued. “I want to make sure that this administration understands that if you’re going to get a free trade agreement, you have to have strong agricultural provisions because we need the locomotive of the ag lobbies -- the big farm organizations, the little farm organizations, the commodity groups, the livestock groups. And it ends up helping manufacturing and services and I want to make sure these deputies understand that,” Grassley said.
- U.S. – U.K. trade negotiations are paused indefinitely as the Biden administration reviews the content of five negotiations rounds conducted under the Trump administration. 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,



Senator Chuck Grassley

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.S. – EU Trade

- President Biden will travel to Europe for his first overseas trip as President. He is planning to travel to Brussels on June 14 to attend the NATO Summit. Biden will also participate in a U.S.-EU summit in Brussels according to the White House said. "This trip will highlight his commitment to restoring our alliances, revitalizing the Transatlantic relationship, and working in close cooperation with our allies and multilateral partners to address global challenges and better secure America's interests," White House press secretary Jen Psaki said in a statement.
- No significant updates as discussions continues between EU and U.S. officials on current tariffs according to reports. As noted earlier, the Distilled Spirits Council commented on the damage to U.S. exporters following EU retaliatory tariffs on its members' products. "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," the association noted.
- 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

- Previously U.K. trade minister Liz Truss recently commented that talks to resolve the Boeing-Airbus dispute were headed in the right direction. "I am having very positive discussions with Katherine Tai, my counterpart, about resolving the Airbus-Boeing dispute which has been going on for 16 years," Truss recently told parliament.
- With a U.S.-U.K. trade deal on hold, the U.K. is hoping to resolve the civil aircraft dispute as a short-term goal. 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.'" 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."
- 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.

USTR

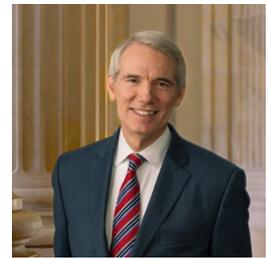
- Ambassador Tai is expected to testify this Wednesday, 28th on USTR trade activities and agency funding

at a Senate Appropriations Committee [hearing](#). Tai is the lone witness for the hearing. Separate hearings on the Administration's trade policy agenda are expected in the House and Senate in mid-May.

- As noted earlier, in her first [speech](#) as USTR, Katherine Tai announced a new direction for the agency to use trade to tackle issues like climate change, racial justice, and inequality. Tai said, "The science indicates that the window of opportunity to prevent a catastrophic environmental chain reaction on our planet is closing fast." "Comprehensive action is the only way forward, and this challenge must be at the center of U.S. foreign policy, national security policy, and economic policy. USTR sits at the intersection of all three areas," Tai continued. Rather than improving environmental protection standards, trade liberalization has instead created "an incentive to compete by maintaining lower standards," stating, "this is what people mean when they say the rules of trade promote a race to the bottom." She also commented on the lack of addressing climate change in USMCA. "And while I think the United States, Mexico, and Canada should be proud of USMCA's progress, I know that the agreement does not go nearly far enough in addressing the economic costs of our environmental challenges through trade," Tai said.

Section 301

A bipartisan group of Congressional members led by Senators Rob Portman (R-OH) and Tom Carper (D-DE), wrote a letter to USTR Tai asking her to restart the exclusion process for imports from China subject to Section 301 tariffs. The [letter](#) states, "...we recognize a practical reality—at this time, especially during a global pandemic, some inputs for American manufactures and small businesses remain unavailable outside of China." "We believe that we can address the inequities in our trade relationship with China without inhibiting the competitiveness and capacity of American businesses and manufactures," the letter continues.



Senator Rob Portman

Transition 2021

- The Biden Administration's Climate Finance Plan includes commitments to fund exports of environmentally beneficial goods. According to [the plan](#), the Export-Import Bank will identify "ways to significantly increase, as per its mandate, support for environmentally beneficial, renewable energy, energy efficiency, and energy storage exports from the United States" and work within an interagency group "to develop a metric to measure U.S. jobs that support climate finance objectives." Additionally, USTDA will dedicate up to \$60 million over the next three years "to advance climate-smart infrastructure solutions that will open emerging markets for the export of U.S.-manufactured goods, technologies, and services," the plan states.
- Treasury Secretary Yellen chooses former private equity investor John Morton as the first climate counselor. He earlier worked in the Obama White House as senior director for energy and climate change at the National Security Council, and as a private equity investor with Global Environment Fund. Most recently, he worked as a partner at the investment firm, Pollination. The selection drew criticism from environmental activists, who wanted the Biden Administration to take a tougher stance on Wall Street firms that finance fossil fuel producers.
- Some Republicans voiced concerns with President Biden's nomination of Susan Bianchi as deputy USTR, questioning whether she has the experience to execute the agency's China portfolio, which she's expected to inherit. Sen. Marco Rubio (R-Fla.), a vocal critic of China's trade practices said, "The China portfolio at USTR is a critical position that should be reserved for someone with experience in these issues, and who has demonstrated a commitment to a clear-eyed approach when confronting the CCP's threats to our national and economic security." He continued, "Katherine Tai was a historic selection for U.S. trade representative, who was confirmed with 98 votes and deserves a team that can carry out her expertise and views on China."
- In contrast, Senate Finance Chair Ron Wyden (D-Ore.) said Bianchi will bring "broad experience to bear on our significant trade policy challenges — including ensuring proper enforcement of our existing trade

deals, making way for the trade of the future, and most importantly, ensuring both our past and future trade policy works for American workers and their families.” As expected, Senator Wyden fully endorsed the other Deputy USTR nominee Jayme White, and long-time staffer to Wyden stating that White’s work in Congress to modernize trade policy was “critical to securing new tools to enforce deals, cracking down on trade cheating by updating U.S. laws, and putting new transparency into trade negotiations.”

- Offering one industry perspective on the nominations, the National Foreign Trade Council’s president, Rufus Yerxa, said Bianchi’s past work for Biden and White’s career on the Hill provide a “great training ground for the kind of combination of politics and policy that you have to manage as a deputy USTR.” Yerxa, who served in the role during the Clinton administration, characterized the position as a “intermediary between the political level and the substantive and technical level of work in USTR, and, of course, you also have to be a good negotiator and a good politician. I think they both are.”
- President Biden announced intentions to [nominate](#) both Bianchi and White on April 16th. Bianchi was appointed in 2011 by then Vice President Biden to serve as his top economic and domestic policy adviser. She has also worked on the White House Domestic Policy Council, in the Office of Management and Budget, on the staff of the Senate Health, Education, Labor and Pensions Committee, and is a former deputy assistant to the president for economic policy. Jayme White, currently the chief trade adviser for the Senate Finance Committee, has worked on the Committee since 2014. The White House did not elaborate on which portfolios Bianchi and White will be responsible for, but several observers expect Bianchi to cover the Asia/China portfolio and that neither nominee is under consideration for the Deputy USTR position in Geneva, working directly with the WTO.

WTO

- House Ways & Means Republicans are urging USTR Tai in [a letter](#) to reignite the Environmental Goods Agreement negotiations at the WTO. In the letter, House Republicans write, “Republicans strongly believe that American technological ingenuity and innovation, deployed worldwide through our trade policy, will reduce carbon emissions and create jobs.” “The United States has a tremendous opportunity to lead the resumption and prompt completion of EGA negotiations, creating more U.S. jobs and reducing emissions worldwide. We urge you to take prompt action to lead the charge to do so, and we look forward to working with you toward the successful conclusion of an ambitious agreement,” the letter concludes.
- WTO Director-General Ngozi Okonjo-Iweala has called for a July ministerial with a focus on fisheries subsidies. [W]e will be asking Ministers to meet virtually in July with a focus on fisheries subsidies and possibly one or two other topics,” she recently told members. “The aim of that meeting will be for Ministers to review a very advanced, hopefully final, text,” she continued. “We must also prioritize these negotiations over these few months, including late nights and weekends if needed. As you know, this is what it usually takes in the final stage of negotiations and I’m really strongly appealing that we prepare to roll up our sleeves to get there,” she said.
- The selection of four new WTO Deputy Director Generals (DDG) remains under consideration according to reports. The positions are historically filled across diverse geographic regions representing WTO membership, namely North America, Asia, Europe, Latin America or Africa. From North America, the DDG is reportedly considering two U.S. trade experts – long-time House Ways and Means Committee Republican chief trade counsel Angela Ellard and former acting USTR Wendy Cutler, currently at the Asia Society’s Policy Institute. Both have extensive trade experience with Congress and the U.S government and Ms. Ellard has worked directly with Amb. Katherine Tai, when she served on the Ways and Means Committee as majority chief trade counsel. Other candidates, by region, are noted below.
 - [Asia](#): China and India are vying for a DDG to represent Asia. India has proposed former Ambassador Mohan Kumar and Indian trade minister Mr Piyush Goyal conveyed to the DG that it is India’s turn for the DDG slot from the Asian region, noting that India has not served for the past seven years. Mohan Kumar served as a key negotiator for India during the Uruguay Round and lead up to launching the Doha Development Round in 2001. China has proposed its former trade

- envoy to the WTO Ambassador Zhang Xiangchen for the DDG slot from the Asian region. Ambassador Xiangchen served in Geneva between 2016 and 2020 and is well known at the WTO.
- Latin America: An ad hoc group of Latin-American members of the WTO are reportedly coalescing support around a former Colombian trade envoy, while the Ngozi Okonjo-Iweala is also considering Anabel Gonzalez, Costa Rica's former trade minister who served as the director the WTO's Agriculture Division and currently is working for Peterson Institute for International Economics (PIIE), according to some reports.
 - Europe: France's current Ambassador to the WTO Jean-Marie Paugam is apparently a top consideration.
- In addition to the four DDG positions, Ngozi Okonjo-Iweala is expected to name a new Chief of Cabinet. Under strong consideration are Nigeria's former envoy to the United Nations in Geneva Ambassador Humphrey Orjiako along with a candidate from Britain and Japan for the chief of the cabinet post.

WTO Reform

- As talks resume on an agreement curbing harmful fisheries subsidies, WTO Director-General Ngozi Okonjo-Iweala said no progress in recent weeks would be a "substantial blow." [C]oncluding these negotiations is a top priority for this organization, not only for the fisheries, but also for the WTO system. We simply cannot afford to fail here," she continued. "The views I hear from you, heads of delegations, are extremely helpful in finding a path forward that we could not find at the technical level," chair of the fisheries talks, Colombian Ambassador Santiago Wills told the ambassadors. "We consider that conducting these meetings at this level is very important for our ability to make the needed progress."