

TRADE UPDATE

Food & Agriculture



Provided by CRA

May 18, 2021

HIGHLIGHTS

- **U.S. – China:** Ambassador Tai in Congressional testimony said that the U.S. needs better tools, specifically updating Section 232, to counter China. Meanwhile, China committed to purchasing another 1.36 million metric tons of U.S. corn, bringing total sales in the past week to 5.1 million tons.
- **U.S. – USMCA:** The U.S. has initiated a complaint under the USMCA's rapid-response mechanism against a General Motors facility in Mexico for alleged worker rights' violations. Mexico countered by filing a USMCA complaint arguing the U.S. is not adequately protecting migrant worker rights in meatpacking and other agricultural sectors.
- **U.S. – EU:** The EU announced it would suspend scheduled retaliatory tariff hikes on June 1 on U.S. goods under the section 232 steel and aluminum tariffs, signaling greater cooperation between the EU and the U.S. to seek solutions to the tariff spate and global excess steel and aluminum capacity.
- **WTO:** A new draft text on the fishery subsidies released last week aims to strike a compromise ahead of a July 15 ministerial meeting.

Quote: "We will not hesitate to call out China's coercive and unfair trade practices that harm American workers, undermine the multilateral system, or violate basic human rights." "...if China cannot or will not adapt to international rules and norms, we must be bold and creative in taking steps to level the playing field and enhance our own capabilities and partnerships." (*U.S. Trade Representative Katherine Tai, testimony before Senate Finance Committee on President Biden's trade agenda*)

China Trade

- During the Senate Finance Committee hearing, Ambassador Tai commented that the U.S. needs better tools, specifically updating Section 232, to counter China. "We welcome fair competition. But if China cannot or will not adapt to international rules and norms, we must level the playing field," Tai said. "We do need new tools, in my opinion, and I think that this is an area where the administration, and this committee and Congress can really make strides towards strengthening our trade enforcement, our leveling of the playing field," Tai continued. Senator Wyden said in a statement, "The reality is, too often, the Chinese government has feasted on weaknesses in the global trading system to the disadvantage of American workers. Bottom line, the U.S. has been playing catch-up ball in the competition with China for too long."
- U.S. government and industry officials fear outbreak of African swine fever (ASF) is worse than reported by the Chinese as reported by *Agri-Pulse*. According to a report out of Beijing by USDA's Foreign Agricultural Service, "In November and December 2020, China experienced a resurgence of ASF. Chinese veterinary institutes identified new strains of ASF, which due to lower virulence and lethality were able to spread to a larger portion of the herd before being detected." Agriculture Secretary Tom Vilsack said, "I suspect that what we have is a situation where there are probably some hot spots that are taking place in China. They don't have it totally under control, but I don't think it's anywhere near as devastating as it was six or nine months ago."
- China continued a string of corn purchase commitments for marketing year 2021-22. USDA announced China committed to purchase 1.36 metric tons of new crop U.S. corn. The sale follows earlier sales of 680,00 tons last Tuesday, 1.02 million tons last Monday, and of 1.36 million tons the prior week, totaling 5.1 million tons. Actual shipments to China from prior sales continued apace as the U.S. shipped about

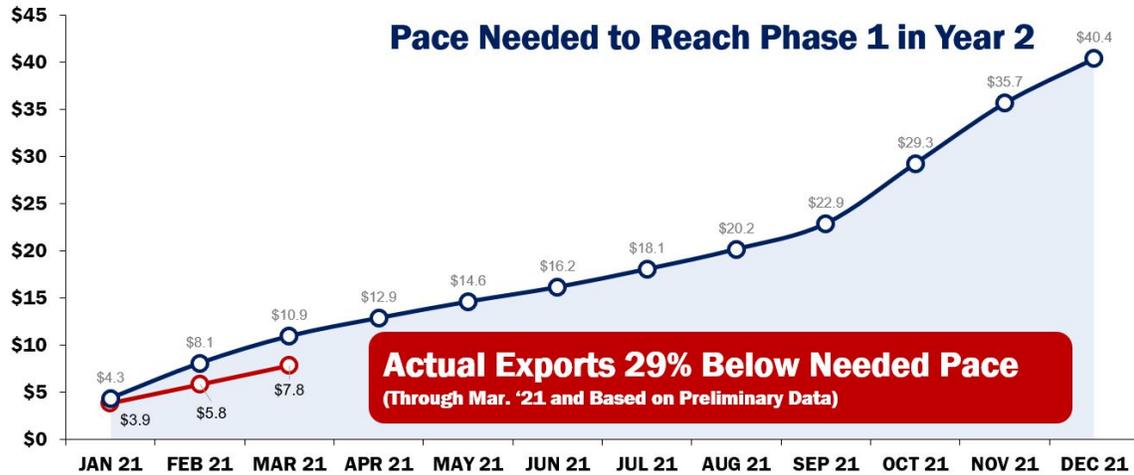
1.5 million metric tons of corn in the seven-day period of April 30-May 6, 355,700 tons of which was shipped to China.

Phase One Agreement

- According to March 2021 Census data, U.S. agricultural exports to China totaled \$7.8 billion. This compares to a needed pace of \$40.4 billion in agriculture exports for the year 2 goal to be reached. Cumulative agriculture Phase One product exports to China in the first three months of 2021 presently lag (29%) 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, Farm Bureau Calculations

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USMCA

- The U.S. has initiated a complaint under the USMCA’s rapid-response mechanism against a General Motors facility in Mexico for alleged worker rights’ violations, USTR announced last week. The complaint centers around a collective bargaining vote at the auto plant, where U.S. and Mexican officials believe the union's behavior during the vote may have violated protections guaranteed to workers under the USMCA, which took effect last year. According to reports, USTR and the Labor Department “a number of months” ago received information via a confidential hotline established by the USMCA implementing legislation from a person who said a GM plant in the Mexican state of Guanajuato was violating workers’ rights. The action marks the first time the U.S. government itself has brought a labor complaint under any trade agreement, whereas previously government agencies had investigated concerns and complaints raised by unions, non-government associations, and the public. According to a USTR official, the action is "a reflection of the current administration's commitment to a worker-centered trade policy and putting workers first and foremost in how we think about trade.”
- Separately, The AFL-CIO, confirmed it has [petitioned](#) the U.S. government to initiate a USMCA rapid-response dispute against a different auto plant in Mexico. In a May 10th press release, the AFL-CIO announced filing the first complaint under the rapid-response mechanism of USMCA against Tridonex, an auto parts factory located in Matamoros in the state of Tamaulipas, Mexico. The labor group was joined by the Service Employees International Union (SEIU), the *Sindicato Nacional Independiente de Trabajadores de Industrias y de Servicios Movimiento 20/32* (SNITIS) and Public Citizen in lodging the

complaint, which USTR has not yet weighed in on. A USTR official noted the agency “will review that petition and make a decision on it, but we just received it, so we have no views on that.”

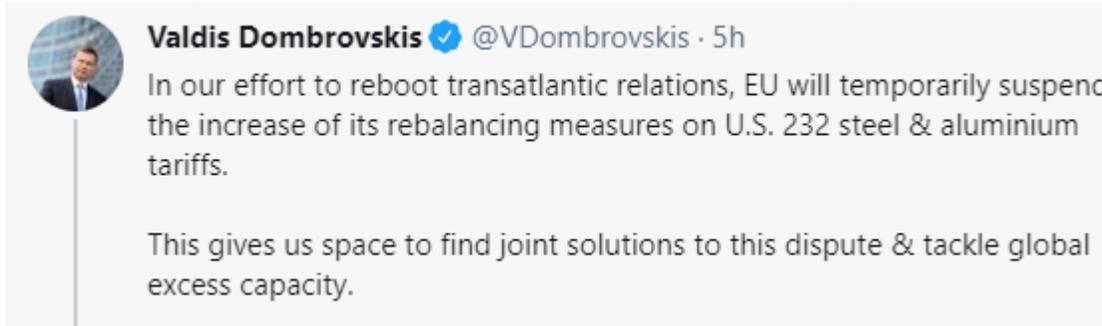
- USDA announced that Mexico’s Secretary of Agriculture and Rural Development (SADER) last week extended the deadline for U.S. organic exports to be certified to its Organic Products Law (LPO) until the end of this year. In a news release, USDA Secretary Vilsack reported, “This is a request that I made directly to Mexico’s Secretary of Agriculture and Rural Development, Victor Villalobos, and am grateful that he extended the compliance deadline to December 31, 2021.” Vilsack’s comments further noted that, “USDA-certified organic products may continue to be exported through 2021. USDA will continue to work with U.S. organic exporters to assist in transitioning to LPO compliance and will continue to provide updates as necessary. This is another important step for American agriculture and for maintaining positive bilateral relations between the United States and Mexico, one of our most important export markets.”
- The Mexican government countered the U.S. and labor groups’ USMCA labor complaints regarding Mexican automotive facilities, filing a USMCA complaint arguing the U.S. is not adequately protecting migrant worker rights in meatpacking and other agricultural sectors. Last Wednesday, Mexican Ambassador Esteban Moctezuma Barragán sent a letter to U.S. Labor Secretary Marty Walsh regarding "the lack of compliance with labor laws that the Government of Mexico has detected" in the U.S. agricultural and meat processing and packing industries, [the Mexican government said in a statement](#).
- The letter stated (English translation), "Even though federal labor rights protect all workers in the U.S., regardless of their migratory status, in practice, situations such as misinformation, fear and abuse from some employers hinder the possibility of migrant workers to fully exercise theirs [sic] labor rights in some industries and States." Mexico expressed concerns over the lack of wages and overtime payments for some workers, inadequate rest breaks and facilities, wage disparities between meat processing and packing workers, and ignoring sexual violence and harassment cases brought by migrant workers. The labor complaints by both the U.S. and Mexico occurs prior to the Free Trade Commission meetings this week, where trade ministers from the United States, Mexico and Canada will discuss USMCA implementation, nearly one year after the agreement went into effect.
- The first USMCA Free Trade Commission meeting is scheduled for May 17-18. Top trade officials from the three countries will convene discussions concerning USMCA implementation, among other USMCA issues. “I expect my Canadian and Mexican counterparts to be very frank and honest with me about how they feel about U.S. implementation, and I will be just as honest with them about concerns that we have in Mexico and in Canada,” Tai said during a Council of the Americas event last week, referring to the coming meetings.
- During the virtual Free Trade Commission Meetings Ambassador Tai will meet with Canadian Minister of Small Business, Export Promotion and International Trade Mary Ng and Mexican Secretary of the Economy Tatiana Clouthier. According to Canadian Minister Ng, the officials “will address important trilateral trade issues, including ensuring the resilience of integrated supply chains, emphasizing the importance of strong labour and environmental protections, and mitigating the economic effects of climate change to ensure that North America emerges from the COVID-19 pandemic stronger, through an inclusive, sustainable recovery that works for everyone.” The Free Trade Commission is designed to review the USMCA implementation performance of each country. The meeting will occur shortly before the one-year anniversary of USMCA entering into force (i.e., July 2020).
- During the hearing on the Biden Administration’s trade agenda, USTR Tai said she would ask Mexico and Canada to include a binding commitment in USMCA for all three countries to honor the Paris Climate Accord. Answering Senator Bill Pascrell (D-NJ) on whether she would inquire on such a commitment during the upcoming trilateral meeting Tai said, "I think that would be a great opportunity to do so.”



Esteban Moctezuma Barragán, Mexican Ambassador

Section 232 Investigations

- The EU announced suspending planned retaliatory tariff hikes on U.S. goods, as EU and U.S. trade officials agreed to work collaboratively to address global steel and aluminum excess capacity. In a [joint statement](#) the two trade partners stated that, “European Commission Executive Vice President Valdis Dombrovskis, United States Trade Representative Katherine Tai and U.S. Secretary of Commerce Gina M. Raimondo today announced the start of discussions to address global steel and aluminum excess capacity. During a virtual meeting last week, the leaders acknowledged the need for effective solutions that preserve our critical industries and agreed to chart a path that ends the WTO disputes following the U.S. application of tariffs on imports from the EU under section 232.” The trade leaders said the talks would include discussions on how overproduction in China depresses prices and threatens the viability of domestic metal producers. “The United States and EU Member States are allies and partners, sharing similar national security interests as democratic, market economies,” said the joint statement.



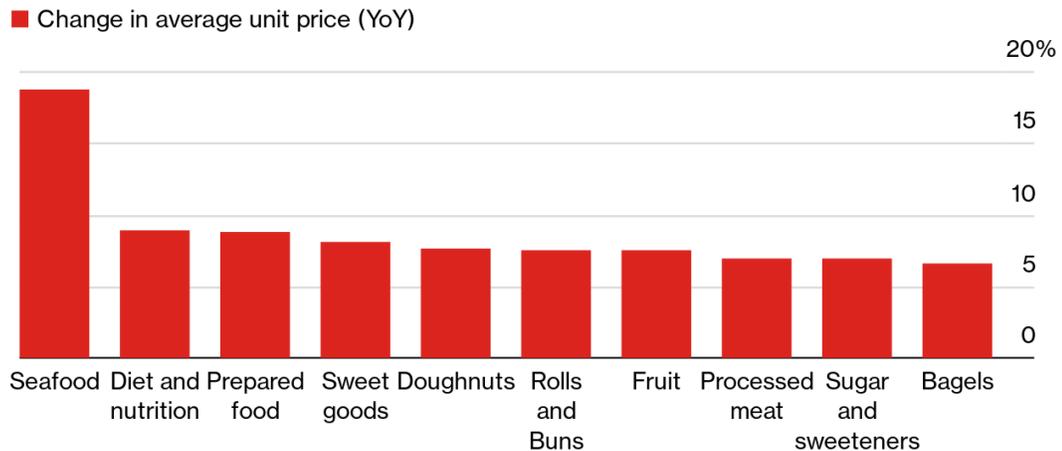
- The EU’s retaliatory tariff increases, originally scheduled for June 1st, would have hit about \$4 billion in U.S. exports to Europe. The transatlantic tariff tussle began three years ago when the Trump administration imposed global tariffs on steel and aluminum imports, which the EU countered with retaliatory tariffs covering a variety of U.S. manufacturing, food, and agriculture products, including distilled spirits. The EU announcement to not impose higher tariffs was lauded by the Distilled Spirits Council. “Distillers across the United States are breathing a huge sigh of relief after bracing for a 50% tariff on American Whiskeys in just a matter of days that would have forced many craft distillers out of the EU market,” said the trade association’s president, Chris Swonger. The announcement does not change the current U.S. tariffs on steel and aluminum, which remain in place, as does the EU’s first round of retaliatory tariffs from three years ago.
- Testifying before the Senate Finance Committee last week, Ambassador Katherine Tai said that she needs new and updated trade enforcement tools in order to deal with China and other countries not adhering to global trade rules. Ms. Tai specifically mentioned the Section 232 national security law utilized by President Trump to levy global tariffs on steel and aluminum imports, ranging from 15% to 25%, as illustrative of outdated trade policy enforcement tools. Ambassador Tai argued tools that reflect the realities of today’s global economy are needed, rather than modifying decades old U.S. laws such as Section 232 that was created in 1962. “Section 232 is a statute from 1962, created at a very different time, long before the (World Trade Organization) was founded. ... What I would propose is that we need 2021 tools for addressing the 2021 challenges we have rather than relying on 1962 tools and retrofitting them for the challenges we have now,” she stated. While not offering any specific proposals, Tai noted, “I am open to improving and perfecting the tools that we have to make them more effective.”
- During the Congressional hearings on President Biden’s trade agenda, Tai reiterated the administration’s position that any solution to the steel and aluminum tariffs will require addressing global excess production capacity for the metals. Tia voiced support for continuing the tariffs stating, “The steel and aluminum tariffs that have really roiled our economy were necessary to address a global over-capacity problem, driven largely but not solely by China.”

COVID-19 Developments

- Retail food prices are increasing through tight supplies coupled with increasing demand as the U.S. economy recovers from the pandemic. New data from NielsenIQ indicates seafood prices are up 18.7% on average in the past 13-week period, while baked goods prices for doughnuts and rolls have risen 7.5% more than in the same period last year. Overall, in 50 of the 52 categories tracked by Nielsen, prices are higher than a year ago, with only butter and milk holding essentially flat.

Sticker Shock

U.S. retail prices for popular food items are rising nearly across the board



Source: NielsenIQ

Note: Data for 13-week period ended 04/24/21. Shows 10 biggest increases.

Bloomberg

U.S. – Kenya Trade

- In questions submitted for the record following the Senate Finance Committee hearing on President Biden’s trade agenda, Ambassador Tai responded to questions on the status of the Kenya free trade agreement by stating, “In 2020, the United States and Kenya officially launched and completed two rounds of negotiations to pursue a free trade agreement. Since announcing the negotiations, the United States completed two rounds of negotiations with Kenya...I will review the U.S.- Kenya bilateral relationship, and the African Growth and Opportunity Act (AGOA) program. The United States’ economic relationship with the African continent will be a priority...”
- The bilateral trade talks remain paused as the Biden Administration reviews the progress on the two rounds of trade negotiations with Kenya under the prior administration. USTR Katherine Tai earlier 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](#). 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

- Multiple Senators asked about a timeline for continuing U.S.-U.K. FTA negotiations during both Senate Finance and House Ways and Means Committee hearings on Biden’s trade agenda. Senator Portman (R-OH) specifically asked about the status of the U.K. FTA and Ambassador Tai responded saying USTR is reviewing the progress made on the negotiations but noted very critical issue areas still open, implying the deal is far from an agreement. Rep. Mike Thompson (D-CA) commented that he was hopeful the Biden Administration can bring relief for the wine industry by a free trade agreement with the U.K.

Ambassador Tai did not commit to a timeline on continuing or restarting trade talks.

- U.S. – U.K. trade negotiations are paused indefinitely as the Biden administration reviews the content of five negotiation 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. 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

- Prior to the EU and U.S. joint announcement on 232 tariffs, a bipartisan group of 18 senators sent a letter to USTR Tai and Secretary Raimondo urging the two leaders to remove the retaliatory tariffs on distilled spirits and wine before the duties by the EU and U.K. double in June. The letter states, “These tariffs have negatively impacted the U.S. beverage alcohol sector and placed American producers at a severe competitive disadvantage in what had been a growing export market for them.” “Securing an agreement to permanently lift these tariffs on wine and spirits will help restaurants, bars, and craft distilleries across the country as they recover from the pandemic,” the letter continues. The 25% tariffs were imposed by the EU in 2018 in response to the Trump Administration’s Section 232 tariffs on steel and aluminum and were set double to 50% in June prior to the most recent EU announcement.
- Responding to questions on the record after the Senate Finance Committee hearing, USTR Tai answered a question on a new EU legislation “which will impose new EU antibiotic use restrictions on producers of animal products that export to the EU, a move that could cause serious disruptions.” Tai responded stating, “I understand the importance of this issue.” “I commit to holding our trading partners to their WTO commitments with respect to sanitary and phytosanitary measures, the application of standards and other obligations that impact our agricultural exporters.”

Civil Aircraft Disputes

- Finding a resolution to the civil aircraft dispute came up repeatedly in both House Ways and Means and Senate Finance Committee hearings. Tai underscored that she remains “very serious” about the discussions and that an agreement is “within reach.” Chairman Neal (D-MA) named the EU “our closest ally” as he questioned Tai on the status of negotiations. USTR Tai responded by saying she agrees that there is a “lot of potential that is unrealized with EU”, and we have “an opportunity to build back better the U.S. and EU relationship.” Senator Menendez (D-NJ) asked about the progress of the EU and U.K. tariff suspension to which Ambassador Tai responded she is encouraged and very serious about the 4-month deadline. While Tai said she would like to have the dispute resolved before July, she fell short of stating whether the suspension would be extended if no deal is reached.
- 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.

Trans-Pacific Partnership (TPP)

- Senator Crapo highlighted the importance of TPP to deepen engagement in the Asia Pacific during the Senate Finance Committee hearing on the President’s trade agenda. Senator Cardin (D-MD) also spoke on

the importance of TPP during the Senate Finance Committee hearing and Ambassador Tai responded by saying we “need to be engaging with rest of world from position of strength” and USTR is “thinking through a strategy to make sure it is effective.”

- As noted previously, a bipartisan group of lawmakers urged the Biden administration to re-examine the U.S. withdrawal from the Trans-Pacific Partnership in 2017. In a [letter](#) to Ambassador Tai on Thursday, subcommittee chairman Tom Carper (D-DE) and ranking member John Cornyn (R-TX), along with House Ways & Means trade subcommittee member Stephanie Murphy (D-FL), asked Tai to re-engage with allies in the Asia-Pacific region to develop multilateral, free-trade partnerships. The letter was also signed by Rep. Adam Kinzinger (R-IL). The letter noted, “Our current trade policy in the Asia-Pacific region is in need of a strategic direction that includes robust engagement with our allies in the region, similar to what was envisioned by the 12-country Trans-Pacific Partnership.”

Section 301

- Congressman Darin LaHood (R-IL) joined Reps. Ron Kind (D-WI), Jackie Walorski (R-IN), and Suzan DelBene (D-WA) to lead [a letter](#) calling USTR Tai to establish a new exclusion process for Section 301 tariffs on Chinese imports. The letter was signed by over 100 bipartisan members of Congress. The letter states, “We all agree that we need to execute a bold, strategic plan to hold China accountable for its unfair trade practices while encouraging businesses to manufacture and operate in the United States. However, while we strategically and comprehensively engage with China, including through tough enforcement, we must also support good-paying jobs in the United States.” “To support American families, we once again urge USTR to create a pathway for targeted relief from Section 301 tariffs,” the letter continued.

Transition 2021

- The Senate approved President Biden’s nomination of Jewel Bronaugh as the Agriculture Department’s deputy secretary, making her the first Black woman to hold the No. 2 position at USDA. Representative John Boozman (R-Ark.) lauded the confirmation stating, “Her extensive experience shows she is more than capable of handling the significant responsibilities that come with the role.” “Deputy Secretary Bronaugh is positioned for success at the department, and I look forward to working with her to help meet the needs of our farmers, ranchers and foresters,” Boozman said in a statement.
- Former top AFL-CIO official Thea Lee will lead the International Labor Affairs Bureau at the Labor Department. Lee will play a key role in overseeing the enforcement of the USMCA’s labor provisions, an increasingly important task as the AFL-CIO just filed its first USMCA compliant. Lee said in a statement, “I am thrilled to have the opportunity and challenge to lead the International Labor Affairs Bureau at this consequential moment in history. Under the leadership of President Biden, Vice President Harris and Labor Secretary Marty Walsh, ILAB will have the resources and the moral authority to play an essential role in lifting up, strengthening and enforcing workers’ rights around the world.” “I look forward to supporting the administration’s ambitious efforts to define and build out a ‘worker-centered trade and foreign policy,’” Lee continued. AFL-CIO President Richard Trumka calling Lee “a tireless advocate for workers and a brilliant trade economist.”
- As reported earlier, President Joe Biden announced the selection of Celeste Drake to serve as the first-ever director of Made in America at the Office of Management and Budget. Ms. Drake, a long-time labor advocate, most recently served as executive in charge of government affairs for the Directors Guild of America. Before that, she was trade and globalization policy specialist for the AFL-CIO. In her newly created position, Ms. Drake is tasked with shaping and implementing federal procurement and financial management policy, including the Buy American rules.



Thea Lee, Labor Department nominee

WTO

- A new draft text on the fishery subsidies negotiations released last week may portend further progress on the sensitive negotiations heading into the July WTO ministerial. The revised draft negotiating text aims to strike a compromise ahead of a July 15 ministerial meeting where trade ministers hope to conclude an agreement. According to the chair, Colombian Ambassador Santiago Wills, the revisions create “landing zones” in key areas where members remain divided, particularly on special and differential treatment. Emphasizing the rapidly approaching ministerial Wills stated, “With just two months to go, I hope this sincere and honest attempt at balancing ambition and necessary flexibility will help members agree on landing zones that will make a substantial contribution to the health of our oceans.” Will continued, “where the choice was between more ambition and less, I opted for more, given the sustainability objective of the negotiations.”
- As noted previously the WTO [announced](#) the appointment of Angela Ellard of the United States, Anabel González of Costa Rica, Ambassador Jean-Marie Paugam of France and Ambassador Xiangchen Zhang of China as new Deputy Directors-General. WTO leader Okonjo-Iweala said in a statement, “I am very pleased to announce the appointment of four new Deputy Directors-General at the WTO. It is the first time in the history of our Organization that half of the DDGs are women.” “This underscores my commitment to strengthening our Organization with talented leaders whilst at the same time achieving gender balance in senior positions.”
- Ms. Angela Ellard (United States), chief trade counsel for House Ways & Means Committee Republicans, replaces the prior U.S. representative Alan Wolff. Ms. Ellard has over 25 years of experience as Majority and Minority Chief Trade Counsel and Staff Director with the Ways & Means staff advising Congress and senior Trump, Obama, Bush, and Clinton Administration officials on free trade agreements, trade legislations, and other trade policy issues. Ms. Ellard also worked as a lawyer in the private sector, working on trade litigation and strategy, policy and legislative issues.



*Santiago Wills,
Colombia's Amb. to WTO*

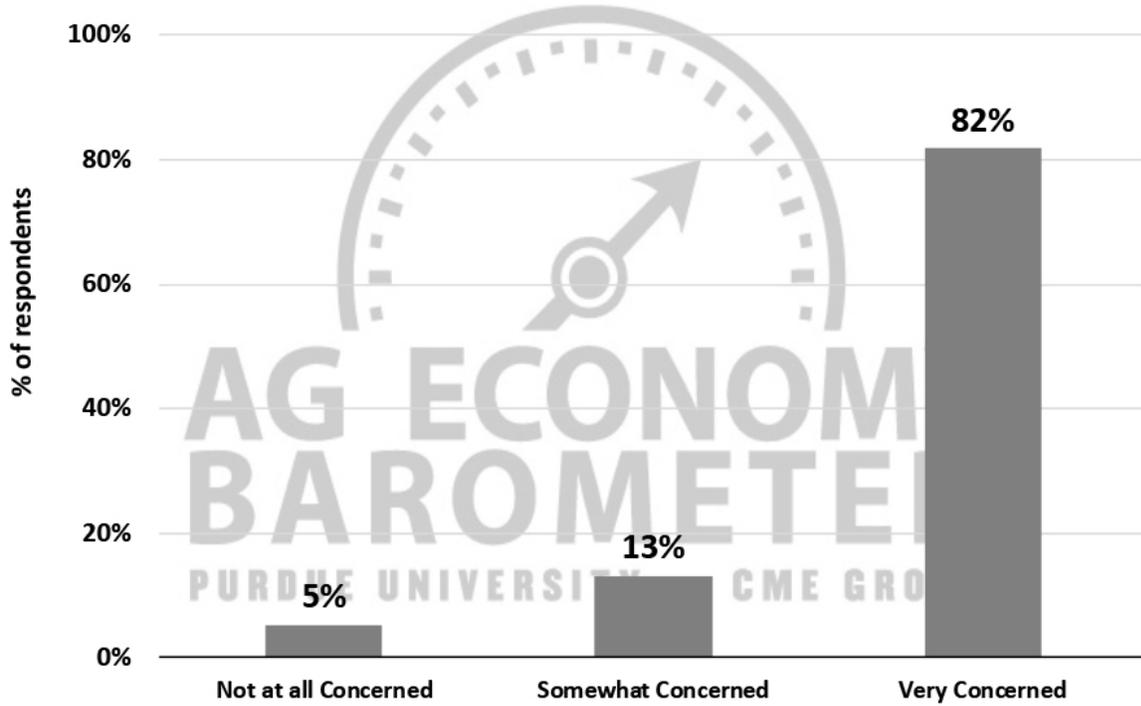
WTO Reform

- At Congressional hearings on the administration’s trade agenda, USTR Katherine Tai said, “We will work...to reform the WTO’s rules and procedures so it can be a relevant force for good in the 21st century global economy.” Tai did not provide any details or timeline for U.S. action.
- No other significant updates since the EU offered its red lines regarding WTO reform. Ignacio Garcia Bercero, the EU Commission’s director for multilateral affairs in trade, said, “We only have two very important red lines. Any reformed dispute settlement system has to maintain the principle of automaticity, what is called the negative consensus rule — it cannot be a system which can be blocked — and you need to maintain an independent appellate body.” He added, “Provided that those two elements which are critical for legitimacy of dispute settlement are fulfilled, I think that we are quite open to have a discussion with the United States and with others to see how we can restore a functioning dispute settlement.”

Ag Economy Barometer

- As Congress considers a myriad of potential tax policies, farmers are increasingly concerned with the tax policy changes. Nearly 9 out of 10 (87%) survey respondents said they expect capital gains rates to rise over the next five years. Three-fourths of producers in this month’s survey said they are “very concerned” about the possible elimination of the step-up in cost basis for farmland in inherited estates and just over two-thirds (68%) of respondents said they are “very concerned” about a possible reduction in the estate tax exemption for inherited estates.

How concerned are you that changes in estate tax policy currently being considered by Congress will make it more difficult to pass your farm on to the next generation of farmers in your family?



Source: Purdue Center for Commercial Agriculture, Producer Survey, April 2021