

TRADE UPDATE Food & Agriculture



Provided by CRA

May 25, 2021

HIGHLIGHTS

- **U.S. – China:** China has conducted multiple discussions with counterparts on details of joining CPTPP as it aims to deepen trade linkages and economic influence in the region according to sources. The U.S. withdrew from the agreement (formerly TPP) in 2017.
- **U.S. – USMCA:** Following conclusion of the first USMCA Free Trade Commission meetings, Canada, Mexico, and the U.S. issued a joint statement committing to enforce provisions of USMCA noting, “To accomplish this, the United States, Mexico, and Canada recommit to fully implementing, enforcing, and fulfilling the Agreement’s terms and high standards throughout the life of the USMCA.”
- **U.S. – EU:** The U.S. and EU aim to resolve the decades-long trans-Atlantic dispute over large civil aircraft subsidies prior to expiration of the current four-month tariff suspension, targeting a resolution by July 10th.
- **WTO:** The WTO Director-General called on member countries to table options to negotiate in order to progress on a text in July leading into the Twelfth Ministerial Conference in December.

Quote: “We’re pursuing trade policies that focus on American workers. In my first two months, I’ve talked with union leaders about creating a seat at the table for workers that never saw themselves represented in trade policy.” (*Tweet from Ambassador Katherine Tai, May 20, 2021*)

China Trade

- Senate Finance Committee Chairman Ron Wyden (D-OR) and Senate Majority Leader Chuck Schumer (D-NY) introduced legislation aimed to “fight back against trade cheating by China and other rival nations.” The “[Combating Oppressive and Manipulative Policies that Endanger Trade and Economic Security \(COMPETES\) Act of 2021](#),” they said, will “level the playing field for American workers, farmers, fishers and families by taking aim at China’s worst practices.” According to the Wyden-Schumer statement announcing the amendment, the measure would give the Office of the U.S. Trade Representative new “tools” to “address anti-competitive digital trade and censorship practices like China’s Great Firewall, including by requiring USTR to identify trading partners that disrupt digital trade; allow for the investigation of unreasonable digital trade measures that are detrimental to U.S. persons; and provide for a review of discriminatory digital trade proposals.” The legislation would tie USTR’s annual National Trade Estimate report to a new effort to identify trading partners “that engage in acts, policies, or practices that disrupt digital trade activities,” which would include “coerced censorship in their own markets or extraterritorially” and “other eCommerce or digital practices with the goal, or substantial effect, of promoting censorship or extrajudicial data access that disadvantages United States persons,” it states.
- China continued a string of corn purchase commitments for marketing year 2021-22. USDA recently announced China committed to purchase 1.36 metric tons of new crop U.S. corn. The sale follows earlier sales of 680,000 tons, and of 1.36 million tons the prior week. During the period May 7 – 18, China committed to purchases of 8.16 million tons of U.S. corn as it rebuilds its swine herd from the wreckage of the African Swine Fever.

China going big on new crop U.S. corn

Chinese purchases of U.S. corn 2021-22 delivery
in million metric tons

May 7	1.36
May 10	1.02
May 11	0.68
May 13	0.68
May 14	1.36
May 17	1.70
May 18	1.36
Total	8.16

Source: USDA Foreign Agricultural Service

- China is pushing ahead with technical talks with several countries with an ambition to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). According to officials from four member countries with knowledge of the discussions, China has conducted multiple discussions with Chinese counterparts on details of joining CPTPP but it's not clear how far China has progressed in preparing an application. China announced in February it had held informal talks with some of the members but didn't release details. Because many of the CPTPP members supply chains are heavily dependent on China, some are leery of China's growing influence and power in the region, and have concerns over labor practices, state-owned companies and its economic confrontation with the EU and the United States.
- Under the Trump administration in 2017, the U.S. withdrew from the initial trade pack known as TPP, which ironically aimed to counter the growing influence of China. If it does join CPTPP, China would become the largest economy in the partnership and, according to some observers, further cement its position at the center of trade and investment in the region.

Members of CPTPP

■ Comprehensive and Progressive Agreement for Trans-Pacific Partnership members



Source: Bloomberg

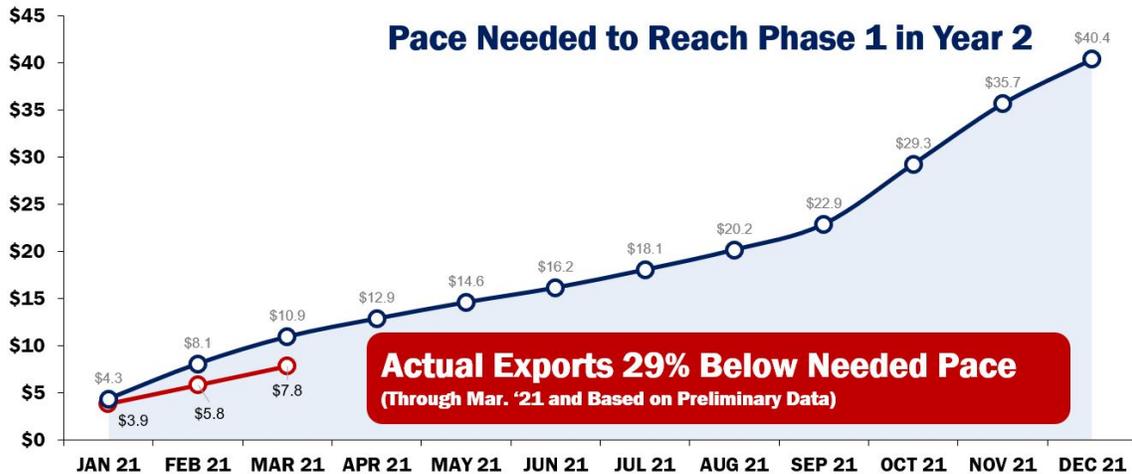
Bloomberg

Phase One Agreement

- As reported earlier, U.S. agricultural exports to China totaled \$7.8 billion in March. 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

- At the first Free Trade Commission meetings last week, top trade officials from the United States, Canada and Mexico committed to full implementation and enforcement of USMCA. USTR Katherine Tai, Canadian Minister of Small Business, Export Promotion and International Trade Mary Ng and Mexican Secretary for Economy Tatiana Clouthier convened the virtual meetings and released a joint statement noting that, "The USMCA commits us to a robust and inclusive North American economy that serves as a model globally for competitiveness, while prioritizing the interests of workers and underserved communities," and they said they "recognize that trade policies should foster broad-based and equitable growth, spur innovation, protect our shared environment, and have a positive impact on people from all walks of life. To accomplish this, the United States, Mexico, and Canada recommit to fully implementing, enforcing, and fulfilling the Agreement's terms and high standards throughout the life of the USMCA."



Katherine Tai



Mary Ng



Tatiana Clouthier

- A major focus of the trilateral Free Trade Commission meetings involved USMCA’s rules of origin for automobiles. Mexican Economy Minister Tatiana Clouthier said the U.S. and Mexico are still working to resolve different interpretations of the USMCA provision according to *Inside U.S. Trade*. According to a statement from the Mexican Economy Ministry, Mexico during the Rules of Origin and Origin Procedures Committee presentation “pointed out that the Committee is working on a technical level and continuously on the correct interpretation and application, in accordance with the T-MEC, of certain provisions related to the Rules of Origin for automotive goods.”
- The Canadian and Mexican governments maintain that USTR, and U.S. Customs and Border Protection under the Trump administration changed the interpretation of a USMCA auto rule after the deal was agreed to. The change in interpretation “significantly changes the game” and the auto industry is hoping Biden’s USTR, Katherine Tai, will revert to what it thought was the original interpretation, according to an auto industry representative. To date USTR Tai has declined to take a different interpretation of the regional-value content calculation for “core” auto parts, according to Secretary Clouthier. “Since the Trump Administration, and now under the Biden Administration, Mexico has indicated to the United States that we have a different understanding regarding certain automotive provisions related to rules of origin,” Clouthier said, adding that despite constructive work on the auto rule, “the Parties have not changed their position in this topic.”
- The USMCA Rules of Origin and Origin Procedures Committee on Tuesday presented its work to Tai, Clouthier and Canadian Minister for International Trade Mary Ng during the first Free Trade Commission meeting. The committee is one of several established under USMCA to oversee the implementation of specific provisions of USMCA as noted in a USTR [statement](#) on the meetings.
- The first environment committee meeting under USMCA will be held virtually on June 17, the Office of the USTR announced. The environment committee includes senior government representatives responsible for overseeing the implementation of USMCA’s environment chapter. USMCA dictates that the committee hold a meeting within a year of the deal’s entry into force on July 1, 2020. USTR in its announcement said the committee would review the implementation of the environment chapter, discuss how each country is meeting its obligations and receive a presentation from the [Commission on Environmental Cooperation \(CEC\)](#). The CEC originally was established via a side deal to the North American Free Trade Agreement. The committee also will hold a virtual public session after the three governments meet, USTR said. Interested parties can submit suggestions for topics to be discussed during the committee meeting and questions for the public session by June 4, the agency added.
- As reported earlier, 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. 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 received “a number of months” ago 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.
- 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. USTR to date has remained silent on the labor group’s request.
- 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](#).

Section 232 Investigations

- The EU last week confirmed positive progress on U.S. and EU discussions to resolve the steel and aluminum tariff disputes by the end of 2021. In a press conference last week, Valdis Dombrovskis, European Commission Executive Vice President cited progress in discussions on steel and aluminum overcapacity – as “positive” developments in the U.S.-EU relationship. Portuguese Foreign Minister Santos Silva indicated the European ministers had a “very positive dialogue” with Ambassador Katherine Tai during a recent meeting and there was “clear convergence” between the two trade partners moving forward. According to Dombrovskis, the U.S. and EU also are looking to conclude their dispute over U.S. steel and aluminum tariffs this year. “Our objective remains a full and final removal of all U.S. Section 232 tariffs towards the EU and, correspondingly, our countermeasures – and to do this as soon as possible, but in any case by the end of the year,” he said.
- Earlier the EU announced suspending planned retaliatory tariff hikes for June 1st 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.



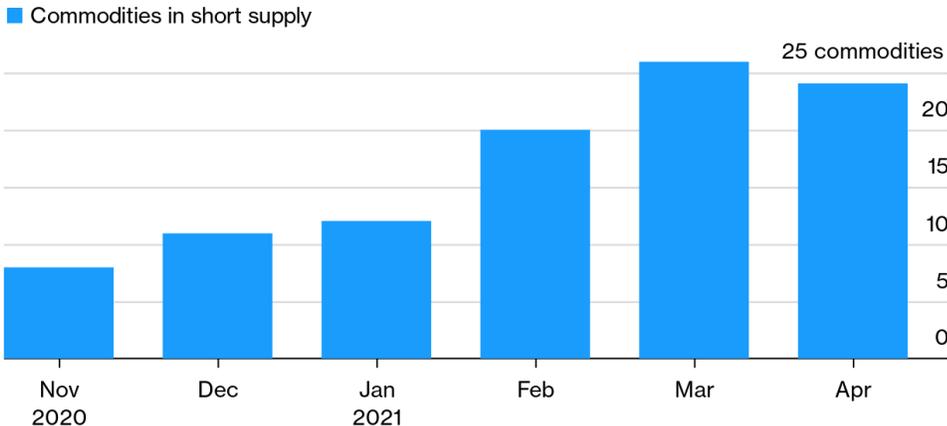
Valdis Dombrovskis, EC Executive Vice President

COVID-19 Developments

- The economic recovery is creating longer lead times and posing new supply-chain challenges for producers. In April, lead times at factories for production materials grew to 79 days, the longest on record dating back to 1987, according to the latest Institute for Supply Management (ISM) data. ISM’s monthly reports also indicate a growing number of commodities in short supply. In November 2020, purchasing managers listed just 8 materials companies were struggling to procure, but rose sharply to 25 in April.

Longer List

Shortfall significant for number of materials, restraining output at U.S. manufacturers



Source: Institute for Supply Management



Trade Promotion Authority

- During recent Congressional hearings, USTR Katherine Tai fielded several questions on the Administration's intentions on the expiration of Trade Promotion Authority (TPA). Ambassador Tai was non-committal on a timeline for renewal of TPA which expires at the end of June. She expressed a desire "in having a TPA that is robustly supported in a bipartisan, bicameral way here in Congress," citing USMCA as a model. Tai suggested that both the Administration and Congressional lawmakers should take the opportunity to think about how a new TPA should work and how the trade objectives can complement the Administration's Build Back Better agenda and help global recovery from the pandemic. She provided no clear timeline when pressed by House Ways and Means Ranking Member Kevin Brady (R-TX) who said, "If I say this year, is there any chance you could just give us a big wink?" Tai's responded stating, "Let's do the work. Let's do the thinking."
- Passed in 2015, TPA was in effect for three years, through July 1, 2018, but was renewed with a three-year extension that keeps TPA active through July 1, 2021. However, the bill only provided for one three-year extension, which means that the present TPA is likely to expire. Open trade negotiations with the U.K. and Kenya would require new TPA legislation to receive streamlined treatment in Congress as was the case with prior U.S. trade deals such as USMCA.

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

- USTR remains silent on details of potentially re-engaging the U.K. on a free trade agreement (FTA). During Congressional hearings this month, multiple Senators inquired about a timeline for continuing U.S.-U.K. FTA negotiations. 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

- No significant updates since the EU and U.S. issued a [joint announcement](#) aiming to work together on finding collaborative solutions to global excess capacity in steel and aluminum and engage in effective discussions regarding the section 232 tariffs. 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.”

Civil Aircraft Disputes

- The U.S. and EU aim to resolve the decades-long trans-Atlantic dispute over large civil aircraft subsidies prior to expiration of the current four-month tariff suspension agreed to earlier this year. According to European Commission Executive Vice President Valdis Dombrovskis both sides are targeting a July 10 deadline. Dombrovskis said at a press conference, “We are working with this deadline in mind,” following an EU ministers meeting. Ambassador Katherine Tai participated in the meeting. “We had intensive and broad discussion on this topic with U.S. Trade Representative Katherine Tai last week and also during today’s video conference she confirmed this timeline,” Dombrovskis added. “The work is advancing, so I would say that this timeline is realistic. Of course, it requires effort on both sides, but it’s possible to achieve this agreement by this time.”
- The U.S. and EU agreed in early March to suspend for four months tariffs imposed on each other for subsidies provided to Boeing and Airbus, respectively. Both sides had won the right to retaliate for these subsidies in parallel World Trade Organization disputes. The U.S. and the United Kingdom, separately, also agreed to suspend tariffs.
- 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.

Section 301

- As noted earlier, 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

- As reported earlier, 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 complaint. 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."

WTO

- WTO Director-General Ngozi Okonjo-Iweala, speaking to G20 leaders and the heads of international organizations, called on WTO members to strive for greater equity in the global distribution of COVID-19 vaccines by lowering supply chain barriers, fully using existing production capacity, and addressing issues related to intellectual property, access and innovation. DG Okonjo-Iweala has described equitable access to COVID-19 vaccines, diagnostics and therapeutics as "the moral and economic issue of our time." DG Okonjo-Iweala said WTO members "must address issues related to technology transfer, knowhow and intellectual property," including the proposed temporary waiver from WTO intellectual property rules for vaccines and other pandemic-related products.
- Speaking on ambitions for the 12th Ministerial or MC 12, DG Okonjo-Iweala said, "We must act now to get all our ambassadors to the table to negotiate a text," she urged. "This is the only way we can move forward quickly, we can't move forward with speeches and polemics." She continued, "I am hopeful that by July we can make progress on a text and by our Twelfth Ministerial Conference in December, WTO members can agree on a pragmatic framework that offers developing countries near automaticity in access to health technologies, whilst also preserving incentives for research and innovation."



WTO Director-General Ngozi Okonjo-Iweala

WTO Reform

- In recent 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.