

TRADE UPDATE Food & Agriculture



Provided by CRA

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HIGHLIGHTS

- **U.S. – China:** Ambassador Katherine Tai held her first discussion with Chinese Vice Premier Liu He, as part of the Biden administration’s top-to-bottom review of U.S. trade policy with China. Both sides reported the discussion was “candid” and aiming to continue the discussions.
- **U.S. – USMCA:** The U.S. filed a USMCA dispute alleging Canadian Dairy tariff-rate quota practices unfairly deny U.S. dairy farmers and exports access to the Canadian market. Canadian vowed to counter the complaint and defend its dairy supply management system.
- **U.S. – U.K.:** The U.K. launched a review of its retaliatory tariffs imposed on U.S. products in response to the ongoing trade conflict regarding section 232 steel and aluminum tariffs.
- **WTO:** The U.S. weighed in on the WTO fisheries talks proposing inclusion of language prohibiting forced labor on fishing vessels in the current negotiations on curbing harmful fisheries subsidies.

Quote:



China Trade

- Ambassador Katherine Tai had a “candid” discussion with Chinese Vice Premier Liu He, in their first meeting in conjunction of the Biden administration’s top-to-bottom review of U.S. trade policy toward China according to USTR. Notably the virtual meeting, did not include the phase-one deal, but Tai and Liu discussed “the importance of the trade relationship between the United States and China,” according to USTR. “During their candid exchange, Ambassador Tai discussed the guiding principles of the Biden-Harris Administration’s worker-centered trade policy and her ongoing review of the U.S.-China trade relationship, while also raising issues of concern,” the [USTR reported](#). “Ambassador Tai noted that she looks forward to future discussions with Vice Premier Liu.”
- The China Ministry of Commerce issued a statement noting that Liu and Tai “conducted candid, pragmatic and constructive exchanges in an attitude of equality and mutual respect.” They continued,

“The two sides believe that the development of bilateral trade is very important, and they exchanged views on issues of mutual concern and agreed to continue to communicate.”

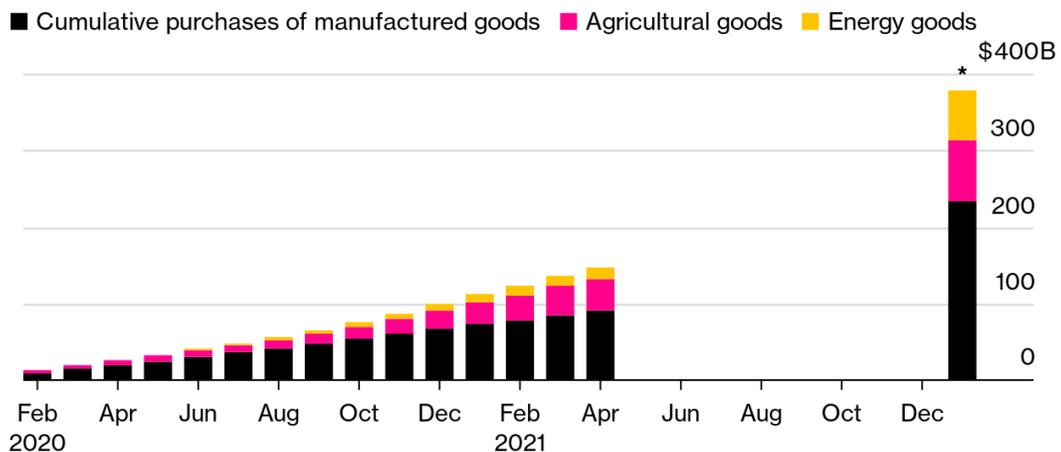
- *Inside U.S. Trade* [reported that](#) last Friday, U.S. Customs and Border Protection issued a withhold-release order on an entire distant-water fishing fleet owned by a Chinese company that had been using forced labor in its seafood harvesting. Homeland Security Secretary Alejandro Mayorkas told reporters that “This is the first time CBP has used its withhold-release order (WRO) authority on an entire fleet of vessels as opposed to a single ship.” The WRO applies to all seafood shipments sourced from Dalian’s Ocean Fishing’s 32 vessels. Dalian accounted for \$233,000 worth of seafood imports in fiscal year 2020, according to CBP commissioner Troy Miller.
- 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.

Phase One Agreement

- An overall assessment of China’s imports of U.S. goods under the phase one trade pact shows incremental progress but a large gap remains. China bought \$10.4 billion worth of manufactured, agricultural and energy goods in April, taking the total in the 16 months since the trade deal was signed in January 2020 to \$147 billion, according to *Bloomberg*. The progress was the slowest pace this year and reached 38.9% of the two-year target of \$378 billion, compared to March’s 36.1%, based on official Chinese data.

Out of Reach

China nowhere near achieving targets for purchases of U.S. goods



* Two-year purchase target in U.S.-China 'Phase One' trade deal

Source: Bloomberg calculations based on Chinese customs data



- According to [reports](#), China is clamping down on some corn imports amid concern that overseas purchases have spiraled out of control, prompting several feed mills to cancel their U.S. cargoes. Chinese customs authorities are restricting imports into free trade zones, which aren't counted toward an official annual purchase quota, according to people with knowledge of the matter. Total U.S. corn cancellations are estimated to be less than 1 million tons, said an observer, who asked not to be identified as the matter is private.

USMCA

- USTR requested the first USMCA dispute settlement panel concerning Canadian dairy practices. The U.S. complaint requests review of measures adopted by the Government of Canada that undermine the ability of American dairy exporters to sell a wide range of products to Canadian consumers. The U.S. is challenging Canada's allocation of dairy tariff-rate quotas (TRQs), specifically the set-aside of a percentage of each dairy TRQ exclusively for Canadian processors. According to [USTR](#), the Canadian measures prevents U.S. dairy farmers, workers, and exporters from utilizing the TRQs and realizing the full benefit of the USMCA. "A top priority for the Biden-Harris Administration is fully enforcing the USMCA and ensuring that it benefits American workers," said Ambassador Tai. "Launching the first panel request under the agreement will ensure our dairy industry and its workers can seize new opportunities under the USMCA to market and sell U.S. products to Canadian consumers."
- Several lawmakers and industry groups praised Ambassador Katherine Tai's decision to initiate a dispute settlement panel under USMCA challenging Canada's allocation of dairy tariff-rate quotas (TRQs). Senate Agriculture Committee Chairwoman Debbie Stabenow, D-Mich., said, "This is another step toward ensuring Canada upholds their commitment to provide fair market access for our dairy farmers. More access to markets means more opportunity for dairy farmers in Michigan and nationwide who were already struggling even before the pandemic. I appreciate Ambassador Tai's work in continuing to move us forward."
- Agriculture Secretary Tom Vilsack said in a news release, "This is an important step for American agriculture, and one that brings the U.S. dairy sector closer to realizing the full benefits of the USMCA." "Ambassador Tai's action today will help ensure that Canada upholds its commitments under the USMCA and puts our other agricultural trading partners on notice that they must play by the rules. I am hopeful of a swift resolution that allows Canadian consumers access to high-quality U.S. dairy products and delivers the economic opportunities promised under USMCA to U.S. dairy farmers," Vilsack said.
- Canadian officials defended its TRQs and vowed to "preserve" its present system. "We will vigorously defend our position during the dispute settlement process," said Canadian International Trade Minister Mary Ng. She continued, "Our government will continue to stand up for Canada's dairy industry, farmers and workers and will continue to preserve, protect and defend our supply management system." Minister Ng argued that Canada is in full compliance with its dairy obligations. "Canada agreed to provide some additional market access to the United States for dairy while successfully defending our supply management system and dairy industry," Ng said.



USDA Secretary, Tom Vilsack

Agriculture in the News

- Over a thousand leaders and stakeholders participated in a webinar focusing on improving diversity and inclusion in the food and agriculture sector. The webinar, hosted by *Agri-Pulse*, included policymakers from Congress, USDA, state agricultural agencies, and farmers throughout America's heartland. House Agriculture Committee Chairmain David Scott (D-GA) was a featured speaker on the webinar, along with other agriculture leaders (view [webinar](#)). The webinar is slated as the first in a series of future discussions, as noted in a recent *Agri-Pulse* [Op-Ed article](#) by John Bode, President and CEO of the Corn Refiners Association, sponsoring the series. Mr. Bode noted that, "We are also planning an additional

webinar in the fall with students as the target audience. After all, today’s students are the future of agriculture and related industries. We envision a two-way communication in which we both learn how to make our agriculture-related industries more welcoming and how to inform students that we are striving to do so.” He further invited interested groups and individuals to share ideas for how to advance diversity, equity and inclusion in agriculture and related industries by providing a note at the association’s [portal dedicated to the DE&I](#).

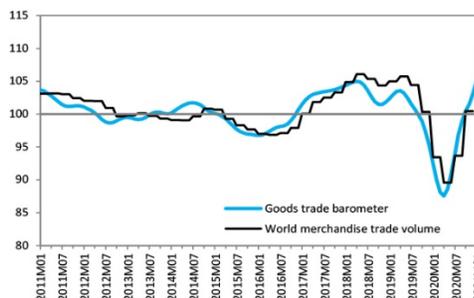
- Last week USDA raised its [forecast](#) for U.S. agriculture exports to \$164 billion, a \$7-billion increase from the February forecast of \$157 billion, also a record-setting amount. The U.S. exported \$135.7 billion in agriculture commodities in fiscal 2020. China’s substantial recent purchases of corn was a substantial factor in the higher estimate, but strong demand from China and elsewhere for U.S. soybeans, beef, pork, poultry, dairy and tree nuts are also elevating U.S. exports, according to the new USDA’s Economic Research Services (ERS) analysis. The ERS said, due to “record volume and higher unit values, driven by strong demand and reduced competition,” it raised its prediction for U.S. corn exports by \$3.5 billion, bringing the new forecast to \$17.2 billion for fiscal 2021.

COVID-19 Developments

- The Commerce department reported the advance international trade deficit in goods decreased to \$85.2 billion in April from \$92.0 billion in March (7.3%) as exports increased and imports decreased.

	 ADVANCE INTERNATIONAL TRADE: GOODS DEFICIT	
APRIL 2021	\$85.2 Billion	-7.3%*
MARCH 2021	\$92.0 Billion	

- The latest [WTO Goods Barometer](#) indicates continued strength in recovery of global goods trade in the second quarter of 2021. The WTO Goods Trade Barometer, which measures global trade trends, is 109.7, up from 103.9 in February and more than 20 points higher than last year’s second-quarter reading, when pandemic-related shutdowns led to a sharp decline in global trade. A baseline reading of 100 would indicate that trade expansion is “in line with medium-term trends.” “In the latest month, all of the barometer’s component indices were above trend and rising, highlighting the broad-based nature of the recovery and signaling an accelerating pace of trade expansion,” the WTO said in a statement.



Section 232 Investigations

- No significant updates since the EU remarked on 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 in late May, 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.

G-7 Summit

- At the G-7 Summit, hosted by the U.K., the seven trade ministers agreed to tackle a variety of trade issues including market-distorting practices, WTO reform, digital trade, forced labor practices and trade and the environment, according to [a joint communiqué](#) issued after the trade meetings. The trade ministers reiterated their commitment to free and fair trade while calling for the modernization of certain international trade rules, according to the communiqué. Led by U.K. Trade Secretary Liz Truss, the seven countries (Canada, Germany, France, Italy, Japan, U.K. and the U.S.) affirmed prioritizing WTO reforms to push back against Chinese trade practices — including forced labor in Xinjiang. The trade ministers said such practices “are a threat to the integrity and sustainability of the rules-based multilateral trading system,” and that they are “concerned by the increased use of non-market policies and practices,” citing “harmful industrial subsidies” like China’s overproduction steel. “These distort competition and reduce fairness and trust in the system,” and “We will continue our efforts to tackle unfair practices that force companies to transfer technology to the state or to competitors,” they said.
- The ministers also held “frank and constructive discussions” on reforming the WTO dispute settlement system and addressing concerns over application of special and differential treatment at the WTO. The ministers committed to continuing conversations after the G7 meetings on both subjects. U.K. Trade Secretary Liz Truss during the meetings called for a “fully functioning dispute settlement system” and a push to “modernise the WTO rulebook,” according to a statement issued on Thursday by the U.K. Department of International Trade. Regarding special and differential treatment, the ministers indicated that restoring the credibility of the WTO also requires “a new approach” to special and differential treatment. They called for “greater differentiation” between least-developed countries and low-income developing countries. The trade ministers’ meetings precede the [full summit of G-7](#) leaders schedule for June 11 in Cornwall, U.K.

U.S. – Kenya Trade

- Since Ambassador Katherine Tai’s appearance before the Senate Finance Committee hearing on President Biden’s trade agenda, there has been no further indication on U.S. engagement on bilateral trade talks. 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

- The U.K. last week launched a review of its retaliatory tariffs imposed on U.S. products in response to the ongoing trade conflict regarding section 232 steel and aluminum tariffs. According to reports, a public consultation has opened aimed at ensuring any future tariffs applied in response to the U.S.' "unjustified" Section 232 national security tariffs on aluminum and steel imports are shaped to U.K. interests. At present, the U.K. levies retaliatory tariffs on an array of U.S. products including whiskey, motorcycles and tobacco, carried over from before the U.K. officially separated from the EU. U.K. officials indicated the review is necessary to ensure the tariffs are tailored to the needs of the U.K. economy and shaped to defend industries across the U.K., including steel and aluminum manufacturers. U.K. International Trade Secretary Liz Truss said, "We now have the power to shape these tariffs, so they reflect UK interests, and are tailored to our economy." She continued, "The UK will do whatever is necessary to protect our steel industry against illegal tariffs that could undermine British industry and damage our businesses."
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- U.K. Trade Minister, Liz Truss*
- 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

- As noted earlier, 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. 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.” “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,” he continued.
- 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.

WTO

- The U.S. weighed in on the WTO fisheries talks proposing inclusion of language prohibiting forced labor on fishing vessels in the current negotiations on curbing harmful fisheries subsidies. Last week’s proposal is the first for the Biden administration in the fisheries talks, commonly recognized as a pivotable test of the WTO’s credibility and leading component for the upcoming ministerial. Under the WTO notification provision, the U.S. seeks to add that members also notify “any vessels and operators for which the Member has information that reasonably indicates the use of forced labor, along with relevant information to the extent possible.” USTR Katherine Tai lauded the U.S. proposal as a move to support sustainability and worker-centric trade policy, a frequently espoused mandate of the administration.
- In [announcing the proposal](#), USTR contends that forced labor encompasses not only moral problems, but also competitiveness as it an “unfair cost advantage” as well. “Forced labor harms the lives and well-being of fishers and workers around the world and it must be eliminated,” Tai said in a statement. “We will continue to work closely with our partners and allies to promote a fair international trading system that addresses the sustainability of fisheries resources, and benefits workers and citizens around the world.”
- The next meeting on the draft fisheries negotiating text is slated for this week when head of delegation convene in at the WTO in Geneva.

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.