

TRADE UPDATE Food & Agriculture



Provided by CRA

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HIGHLIGHTS

- **[U.S. – China:](#)** China and the U.S. officials agreed in recent talks to promote the “healthy and stable development of Sino-U.S. economic and trade relations.”
- **[U.S. – USMCA:](#)** Canada expressed “disappointment” with the United States requested USMCA panel in the dispute on Canada’s dairy TRQs, and said Canada remains in compliance with USMCA obligations.
- **[U.S. – U.K.:](#)** The U.K. announced a review of its retaliatory tariffs imposed on U.S. products regarding Section 232 steel and aluminum tariffs. The [proposed list](#) includes several food and agriculture products.
- **[WTO:](#)** WTO members made progress on advancing talks on fisheries subsidies as they approach a mid-July ministers meeting, though concerns on special and differential treatment remain.

Quote: “At USTR we want to encourage a race to the top with higher standards and real, rapid enforcement of our trade agreements.” (*U.S. Trade Representative Katherine Tai, speaking at Congressional roundtable*)

China Trade

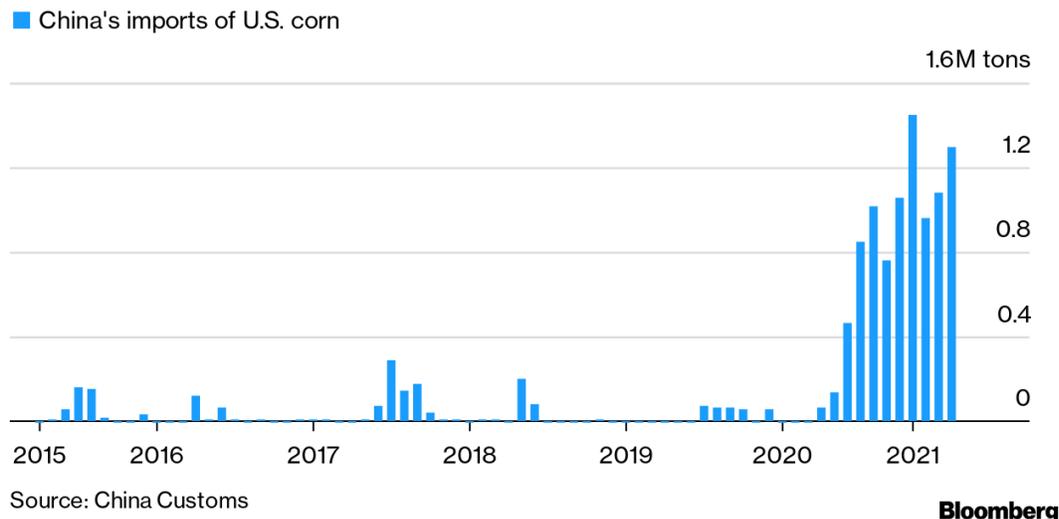
- According to the China Ministry of Commerce, China and the U.S. agreed in recent talks to solve “specific problems for producers and consumers.” China’s Ministry of Commerce, spokesman Gao Feng said that U.S. cabinet officials Janet Yellen and Katherine Tai agreed with Liu He on the need to find common ground. Gao emphasized U.S. and Chinese economic and trade officials “have begun to communicate normally” and that “seeking common ground while reserving differences is a consensus.” “Both sides believe that Sino-U.S. economic and trade relations are very important, and there are many specific areas for cooperation,” Gao continued, suggesting the U.S. and China should “start with pragmatic problem-solving.” “The two sides agreed that the next step is to work together from the perspective of benefiting China and the United States and the world as a whole, to pragmatically solve some specific problems for producers and consumers, and promote the healthy and stable development of Sino-U.S. economic and trade relations.”
- A seafood provision is part of a larger trade package that Senate Finance Committee Chairman Ron Wyden (D-Ore.) is offering as an amendment to the proposed U.S. Innovation and Competition Act, S. 1260 (117), aimed at China. It builds on a [joint report from the Commerce and State departments last year](#) that identified China as “a significant offender in the use of forced labor in their fishing sector, with numerous reports on Chinese-flagged and -owned vessels throughout the world.” The seafood provision requires U.S. Customs and Border Protection to issue new regulations within a year aimed at preventing forced labor seafood imports. U.S. seafood imports from China totaled nearly \$3 billion in 2018 but tumbled to just \$1.6 billion last year largely because of tariffs imposed by President Donald Trump.

Phase One Agreement

- Commodity shipments to China from prior sales remain strong as the U.S. monthly corn shipments averaged nearly 1 million metric tons in late 2020 and the early months of 2021 according to Chinese trade statistics.

Ballooning Imports

Chinese buying of U.S. corn has risen as Beijing tries to adhere to a trade deal



USMCA

- Canadian official expressed “disappointment” with the U.S. request for a USMCA panel regarding Canada’s dairy TRQ system. “Canada is disappointed that the United States has requested a dispute settlement panel,” Canadian International Trade Minister Mary Ng said in a [statement](#). “We are confident that our policies are in full compliance with our CUSMA TRQ obligations, and we will vigorously defend our position during the dispute settlement process.” 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.”
- As reported earlier, 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 praised the action challenging Canada’s allocation of 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.”

Asian Pacific Economic Cooperation (APEC)

- Ambassador Katherine Tai met with U.S. and international labor union leaders last week ahead of the meeting of APEC trade ministers’ meetings. Ms. Tai emphasized the Biden administration’s commitment to a worker-centered trade policy that raises wages, promotes worker empowerment and generates economic security for workers around the globe, according to a USTR [statement](#). Ambassador Tai also

highlighted the importance APEC and other international fora as a vehicle to foster dialogue on topics of mutual interest. The labor group leaders shared their views on ways to advance workers' rights in APEC member economies and increase worker representation at APEC meetings. According to the USTR statement, "Ambassador Tai welcomed their ideas and emphasized her commitment to sustained engagement with the meeting participants in the future."

- Also at the APEC trade ministers meetings, Ambassador Tai [said](#) that the U.S.-China trade relationship "has been marked by significant imbalance... in terms of performance... opportunity and openness of our markets to each other." In the meantime, Ambassador Tai joined Chinese Minister of Commerce Wang Wentao and other APEC trade ministers on June 5 to [issue a broad statement](#) in favor of "the essential role of trade" in tackling and recovering from COVID-19, as well as the importance of a rules-based multilateral trading system. The statement includes joint commitments on:
 - A rules-based multilateral system, including a joint pledge of support for World Trade Organization modernization and reform. The statement also covered trade's role in supporting environment protection, food systems, women's economic empowerment and small business development, and related to market-distorting subsidies and protective measures in specific sectors (such as energy and agriculture).
 - Future economic growth, including references to the digital economy, the WTO trade facilitation Agreement and work towards a future Free Trade Area of the Asia-Pacific (FTAAP).

COVID-19 Developments

- Global food prices continue to rise approaching the highest level in the past decade, raising economic concerns as many countries struggle to emerge from the COVID-19 crisis. According to the United Nations, world food costs climbed for a 12th straight month in May, the longest continuous increase in a decade. The trend shows no signs of abating and could stoke inflationary pressures.

Food Prices Surge

Monthly index of world costs reaches highest in nearly a decade

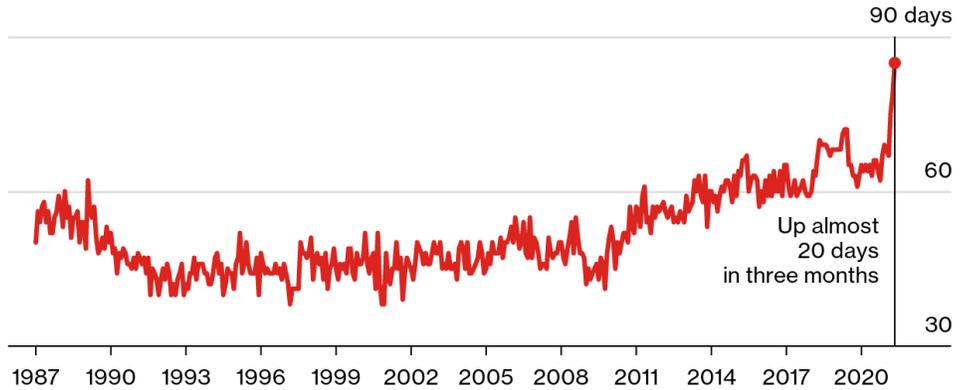


- U.S. producers continue to grapple with tightening supply constraints. The average delivery time for materials increased in May to 85 days, according to the Institute for Supply Management's (ISM) latest manufacturing report. The May results also reveal that numerous industries are facing difficulty finding skilled workers, another disruption for factories that are otherwise experiencing surging demand and economic growth.

Record Delays

Delivery times for materials used by U.S. manufacturers longest in data to 1987

Production materials average lead time



Source: Institute for Supply Management

Bloomberg

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.

Section 301

- USTR announced section 301 Tariffs in retaliation for digital service taxes levied by six countries but then immediately said it would suspend tariff implementation while negotiations continue on international tax issues. In last week’s [press release](#), USTR announced completion of its Section 301 investigations of Digital Service Taxes (DSTs) that have been adopted by Austria, India, Italy, Spain, Turkey and the United Kingdom. For each country, USTR determined that it would take action in the form of additional duties of 25% on certain designated products from each country. However, such additional duties have been

immediately suspended for a period of up to 180 days – until November 29, 2021 – to provide additional time to complete ongoing multilateral negotiations on international taxation issues. In making the announcement, USTR Katherine Tai stated, “The United States is focused on finding a multilateral solution to a range of key issues related to international taxation, including our concerns with digital services taxes ... The United States remains committed to reaching a consensus on international tax issues through the OECD and G20 processes. Today’s actions provide time for those negotiations to continue to make progress while maintaining the option of imposing tariffs under Section 301 if warranted in the future.”

- The USTR has prepared six notices that indicate in Appendix A to each notice the specific products/tariff subheadings upon which these duties will be placed:
 - [Austria](#) – Annex A contains a list of 23 tariff subheadings, with an estimated trade value for calendar year 2019 of approximately \$65 million.
 - [India](#) – Annex A contains a list of 26 tariff subheadings, with an estimated trade value for calendar year 2019 of approximately \$119 million.
 - [Italy](#) – Annex A contains a list of 44 tariff subheadings, with an estimated trade value for calendar year 2019 of approximately \$386 million.
 - [Spain](#) – Annex A contains a list of 27 tariff subheadings, with an estimated trade value for calendar year 2019 of approximately \$324 million.
 - [Turkey](#) – Annex A contains a list of 32 tariff subheadings, with an estimated trade value for calendar year 2019 of approximately \$310 million.
 - [United Kingdom](#) – Annex A contains a list of 67 tariff subheadings, with an estimated trade value for calendar year 2019 of approximately \$887 million.
- The Biden administration has petitioned the Court of International Trade (CIT) to dismiss thousands of Section 301 lawsuits. In a recent court filing the Justice Department argued the CIT should dismiss the parade of complaints against tariffs on goods from China because they were lawfully imposed and can’t be subjected to judicial review. The Justice Departments said importers “have not pled a justiciable claim and their claims should be dismissed.” Alternatively, the Department said, “we respectfully request that the Court grant judgment in favor of the Government on the agency record.”
- Thousands of importers and companies filed complaints against tariffs imposed by the Trump administration -- under Section 301 of the Trade Act of 1974 -- on \$320 billion worth of goods from China. The importers are seeking duty refunds plus interest. They argue that the tariffs on additional products violated the Trade Act because the duties were imposed more than a year after the initial Section 301 investigation concluded. The majority of cases were filed prior to President Biden taking office.

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. announced 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. Britain's Department of International Trade's announcement provided further details on a 6-week [public consultation](#) period to ensure any tariffs on aluminum and steel dispute are shaped to U.K. interests. 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." The U.K.'s review could result in the maintenance, increase or decrease in tariffs, or removal of products from the proposed potential rebalancing measures list. The [proposed list](#) includes several food and agriculture products including grapes, candies, wine, orange juice, chocolate, and lobsters.
- USTR remains silent on details of potentially re-engaging the U.K. on a free trade agreement (FTA). Rep. Kevin Brady recently urged President Biden to make trade a topic at the G-7 Summit. "I hope President Biden hears from his counterparts how important trade is in America's leadership," Rep. Kevin Brady (Texas), the top Republican on the House Ways and Means Committee, said "America needs to be leading on trade, not cowering from it, and the G-7 summit would be the right opportunity to have those discussions." Many stakeholders hope that as the U.K. hosts President Biden, along with other G-7 leaders, that Biden may address status of the U.S. - UK trade talks. Meanwhile the U.K. is pursuing a trade deal with Australia, commenced the process to join CPTPP, and announced intentions to launch additional trade talks with Canada and Mexico.
- During Congressional hearings last 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

- No significant updates since the U.S. and EU announced ambitions to resolve the decades-long trans-Atlantic dispute over large civil aircraft subsidies prior to expiration of the current four-month tariff suspension. EU officials indicated both sides are targeting a July 10 deadline. "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," EC Executive Vice President Valdis Domrovskis said.
- 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

- WTO members raised the inclusion of environmental sustainability as part of the 12th Ministerial. Several members indicated support for "a ministerial statement highlighting the potential contribution of the WTO to achieving global environmental and climate goals," according to a WTO [statement](#). This could include a "roadmap or plan of action for the post-MC12 period," these members noted, signaling talks on liberalizing trade in environmental goods and services and fossil fuel subsidy reform as possible topics. Some members also suggested inclusion of a carbon border adjustment mechanism at the Ministerial forum. The 12th Ministerial meetings are slated to commence in Geneva at the end of November.
- WTO members made progress on advancing talks on fisheries subsidies as they approach a mid-July ministers meeting. Despite the progress a divide remains on special and differential treatment provision concerns raised by members, the chair of the fisheries talks, Colombian Ambassador Santiago Wills, said last week. All meetings now are being held at the heads-of-delegation level as WTO members race to complete an actionable draft agreement – with few remaining question marks – in front of ministers for the July 15 virtual ministerial meeting. WTO Director-General Ngozi Okonjo-Iweala has called for the meeting with the goal of finalizing a deal ahead of the ministerial conference later this year.
- As noted earlier, the U.S. recently proposed inclusion of language prohibiting forced labor on fishing vessels in the current negotiations on curbing harmful fisheries subsidies. Specifically, 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." 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 proposed language was not presented nor commented upon in recent negotiating sessions. The fisheries talks are commonly recognized as a pivotable test of the WTO's credibility and leading component for the upcoming ministerial.



Santiago Wills, Colombian Ambassador to WTO

Ag Economy Barometer

- May’s Ag Economy Barometer index receded 20 points, falling to an index reading of 158, the lowest since September of 2020. The index reading has averaged over 170 the past few months, inching close to the record high of 184 last October before declining in May. The weakening farmer sentiment was largely attributable to producers’ eroding confidence in their farms’ financial performance compared with the prior month and currently being less inclined to undertake large investments in their farming operation. Though the index is down in May, strong ag commodity prices continue to support producers’ generally optimistic perspectives on current conditions. Conversely ongoing concerns remain, with farmers concerned with possible changes in tax policy being considered by Congress, especially changes that could make it more difficult to pass their farm on to the next generation.

